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MASS. Y3. SESI: 1/185

SOUTH ESSEX SEWERAGE DISTRICT

Financial Statements

June 30, 1985

(With Accountants' Report Thereon)



Peat, Marwick, Mitchell & Co.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108
617-723-7700

The Board of Directors
South Essex Sewerage District:

We have examined the combined balance sheet of South Essex Sewerage District as of June 30, 1985 and the related statements of revenues, expenditures and changes in fund equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of South Essex Sewerage District at June 30, 1985 and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceeding year after giving retroactive effect to the changes, with which we concur, in the method of accounting for district members assessments and the reporting of capital projects as described in note 3 to the financial statements.

August 9, 1985

Peat, Marwick, Mitchell & Co.

SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1985

Assets	General Fund	Capital Projects	Account Groups		Combined Total (Memorandum only)
			Fixed Assets	Long-term Debt	
Cash	\$ 379,605	411,248	-	-	790,853
Investments, at cost (approximates market)	1,000,000	106,866	-	-	1,106,866
Assessments receivable	2,713	-	-	-	2,713
Due from Capital Projects Fund	30,000 - Book	-	-	-	30,000
Intergovernmental grants receivable	-	2,916,476	-	-	2,916,476
Other assets	9,535	-	-	-	9,535
Property, plant and equipment (note 4):					
Land	-	-	244,093	-	244,093
Waste treatment facilities	-	-	55,255,046	-	55,255,046
Amount to be provided for retirement of bonds payable	-	-	-	11,780,000	11,780,000
	\$ 1,421,853	3,434,590	55,499,139	11,780,000	72,135,582
Liabilities, Deferred Revenue and Fund Equity					
Liabilities:					
Due to General Fund	-	30,000	-	-	30,000
Short-term borrowings (note 5)	-	2,628,000	-	-	2,628,000
Member assessment refunds	560,748	-	-	-	560,748
Warrants payable	1,346	-	-	-	1,346
Accrued expenses	1,127	-	-	-	1,127
Bonds payable (note 6)	-	-	-	11,780,000	11,780,000
Total liabilities	563,221	2,658,000	-	11,780,000	15,001,221
Deferred revenue	-	2,916,476	-	-	2,916,476
Fund equity:					
Reserve for continuing appropriations (note 9)	102,119	419,000	-	-	521,119
Reserve for specific expenditure	-	67,503	-	-	67,503
Investment in fixed assets	-	-	55,499,139	-	55,499,139
Unreserved fund equity (deficit)	756,513	(2,626,389)	-	-	(1,869,876)
Total fund equity	858,632	(2,139,886)	55,499,139	-	54,217,885
	\$ 1,421,853	3,434,590	55,499,139	11,780,000	72,135,582

See accompanying notes to financial statements.

must adjust
must set up New Funds

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures, Transfers and Changes in Fund Equity
General Fund

Year ended June 30, 1985

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,815,124	7,713,123	(2,102,001)
Interest	-	258,935	258,935
Septage receipts	-	24,616	24,616
Total revenues	<u>9,815,124</u>	<u>7,996,674</u>	<u>(1,818,450)</u>
Expenditures:			
General administration:			
Personnel costs	184,482	172,361	12,121
Expenses	<u>561,166</u>	<u>658,802</u>	<u>(97,636)</u>
	<u>745,648</u>	<u>831,163</u>	<u>(85,515)</u>
Engineering:			
Personnel costs	322,048	252,426	69,622
Expenses	<u>298,555</u>	<u>33,930</u>	<u>264,625</u>
	<u>620,603</u>	<u>286,356</u>	<u>334,247</u>
Operations:			
Personnel costs	761,779	579,548	182,231
Expenses	<u>5,424,810</u>	<u>3,218,917</u>	<u>2,205,893</u>
	<u>6,186,589</u>	<u>3,798,465</u>	<u>2,388,124</u>
Maintenance:			
Personnel costs	381,128	351,182	29,946
Expenses	<u>358,470</u>	<u>306,249</u>	<u>52,221</u>
	<u>739,598</u>	<u>657,431</u>	<u>82,167</u>
Construction debt service:			
Principal	755,000	755,000	-
Interest	<u>692,455</u>	<u>692,455</u>	<u>-</u>
	<u>1,447,455</u>	<u>1,447,455</u>	<u>-</u>
In lieu of taxes	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>9,809,893</u>	<u>7,090,870</u>	<u>2,719,023</u>
Excess of revenue over expenditures	5,231	905,804	900,573
Transfer to Capital Projects Fund	<u>-</u>	<u>419,000</u>	<u>(419,000)</u>
Excess of revenues over expenditures and transfers	<u>\$ 5,231</u>	<u>486,804</u>	<u>481,573</u>
Fund deficit - as originally reported, June 30, 1984		(2,412,011)	
Adjustments (note 3):			
To establish separate capital projects fund as of June 30, 1984		3,019,771	
Change in accounting for member assessments		<u>(235,932)</u>	
		<u>2,783,839</u>	
Fund equity - as restated, June 30, 1984		<u>371,828</u>	
Fund balance, June 30, 1985		<u>\$ 858,632</u>	

See accompanying notes to financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1985

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Total</u>
Revenues:					
Member assessment	\$ 38,769	117,819	99,292	42,754	298,634
Intergovernmental revenues	<u>-</u>	<u>147,191</u>	<u>77,688</u>	<u>-</u>	<u>224,879</u>
	<u>38,769</u>	<u>265,010</u>	<u>176,980</u>	<u>42,754</u>	<u>523,513</u>
Expenditures:					
Interest expense	38,769	117,819	99,292	42,754	298,634
Capital outlay	<u>-</u>	<u>1,997,520</u>	<u>251,341</u>	<u>15,133</u>	<u>2,263,994</u>
	<u>38,769</u>	<u>2,115,339</u>	<u>350,633</u>	<u>57,887</u>	<u>2,562,628</u>
Excess of expenditures over revenues	-	(1,850,329)	(173,653)	(15,133)	(2,039,115)
Other financing sources:					
Transfer from General Fund (note 9)	-	391,000	28,000	-	419,000
Proceeds of general obli- gation bonds	<u>199,000</u>	<u>1,676,000</u>	<u>625,000</u>	<u>-</u>	<u>2,500,000</u>
	<u>199,000</u>	<u>2,067,000</u>	<u>653,000</u>	<u>-</u>	<u>2,919,000</u>
Excess (deficiency) of revenues and other sources over expenditures	199,000	216,671	479,347	(15,133)	879,885
Fund balance as originally reported, June 30, 1984	-	-	-	-	-
Fund deficit transferred from general fund as of June 30, 1984	(166,957)	(1,474,534)	(828,825)	(549,455)	(3,019,771)
Fund deficit - June 30, 1985	\$ <u>32,043</u>	<u>(1,257,863)</u>	<u>(349,478)</u>	<u>(564,588)</u>	<u>(2,139,886)</u>

See accompanying notes to financial statements.

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
RECORD OF RESEARCH
BY

NAME

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ADVISOR

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

June 30, 1985

(1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

(2) Summary of Significant Accounting Policies

The District follows generally accepted accounting and reporting principles as promulgated by the Governmental Accounting Standards Board. Significant accounting policies followed by the District are as follows:

(a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for the its' general fixed assets and general long-term debt.

(Continued)

THEORY OF THE EARTH

BY J. H. VAN DIJK

AMSTERDAM, 1964

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred.

(c) Intergovernmental Revenue

Estimated reimburseable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon formal application to the respective governments for reimbursement of costs.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies will result in a capital project being undertaken. Interest incurred during the period of construction is capitalized. Depreciation expense is not recognized as a cost of providing service and therefore is not reflected in the financial statements of the District.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital cost, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other district costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the district can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the district to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the district governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities. In 1985, the District Board and all district member municipalities unanimously voted to override the 2-1/2% limit.

(Continued)

Vol. 100, Part 1, 1970. Published by the Royal Anthropological Institute of Great Britain and Ireland, 21, BEDFORD SQUARE, LONDON, W.C.1.

Subscription prices (which include postage) for institutions are £12.00 per volume (two parts) for the United Kingdom and £14.00 for other countries. Single parts are £6.00 (UK) and £7.00 (other countries).

Orders, which must be accompanied by payment, may be sent to a bookseller or to the publishers, Royal Anthropological Institute, 21, Bedford Square, London, W.C.1. The subscription price of this journal (which includes postage) for institutions is £12.00 per volume (two parts) for the United Kingdom and £14.00 for other countries.

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(3) Changes in Accounting and Reporting

The District made one accounting change and one reporting change during the year. First, the method of accounting for district member assessments was changed from the amount billed during the year to the amount billed adjusted for over or under assessments. This accounting change will result in reporting assessment revenue on an earned rather than cash receipts basis. The change, which was made retroactively, had the effect of reducing assessment revenues by \$235,932 in 1984 and increasing assessment revenues by \$322,103 in 1985.

In addition to the above accounting change, the District decided to report construction project activity in a separate Capital Projects Fund. Accounting for elements of construction project revenues, expenditures and other financing transactions remained the same. Management believes that this reporting change will result in a better understanding of the financing activities of the District. The change was made retroactively.

(4) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group, by major category, at June 30, 1985, are as follows:

	Balance at June 30, 1984	Additions	Disposals	Balance at June 30, 1985
Land	\$ 244,093	-	-	244,093
Water treatment facilities:				
Phase I	11,525,426	-	-	11,525,426
Phase II	26,550,139	1,801,594	-	28,351,733
Phase III	8,902,571	234,102	-	9,136,673
Phase IV	6,231,449	9,765	-	6,241,214
	<u>53,209,585</u>	<u>2,045,461</u>	<u>-</u>	<u>55,255,046</u>
	<u>\$ 53,453,678</u>	<u>2,045,461</u>	<u>-</u>	<u>55,499,139</u>

(5) Short-term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1985 are as follows:

	Amount	Due date	Interest rate
Arlington Trust	\$ 250,000	6/27/86	5.15%
Capitol Bank	250,000	6/27/86	4.99
Century North Shore	300,000	6/27/86	4.97
Century North Shore	200,000	6/27/86	5.21
Bank of Boston	1,000,000	6/27/86	5.24
Bank of New England	628,000	6/27/86	5.13
	<u>\$ 2,628,000</u>		

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(6) Bonds Payable

A summary of bonds payable at June 30, 1985 follows:

First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,230,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	740,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2,000.	880,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	80,000
Fifth Series A 7.08% bonds payable in annual installments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	199,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,420,000
Second series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	1,040,000
Third series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,225,000
Fourth Series B 7.08% bonds payable in annual installments of \$191,064 through 1990, \$147,488 through 1991, \$144,136 through 1994, \$140,784 through 1995.	1,676,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,230,000
Second Series C 7.08% bonds payable in annual installments of \$71,250 through 1990, \$55,000 through 1991, \$53,750 through 1994, \$52,500 through 1995.	625,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1986.	100,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter through 1992.	<u>335,000</u>
Total bonds payable	\$ <u>11,780,000</u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

The aggregate maturities of long-term debt follows:

<u>Year ended June 30:</u>	<u>Amount</u>
1986	\$ 1,040,000
1987	1,040,000
1988	990,000
1989	985,000
1990	985,000
1991-1995	3,820,000
1996-2000	1,660,000
2001-2005	1,040,000
2006/thereafter	<u>220,000</u>
	<u>\$ 11,780,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member cities, towns and institutions</u>
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).
Marblehead Series and Act of 1972 Bonds	The Town of Marblehead.

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1985, the District was authorized to issue \$22,200,000 in connection with its construction projects.

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(7) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement system. The system is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the system and certified by the State Division of Insurance. Pension costs for the year ended June 30, 1985 amounted to \$199,000 and were charged to general fund operating expense.

(8) Litigation

The District is involved in negotiations with Federal and state agencies regarding alleged polluting conditions. The District is taking actions to eliminate the alleged problems and believes that the actions will be successful.

(9) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1985 are being carried forward to subsequent years as follows:

Maintenance and Operations:

Station wagon	\$ 12,393
Cleaning Peabody sewer line	12,578
Robbins-Myers Mazorators	16,080
Gilbert & Cole	1,904
F.W. Webb Co.	1,173
Standby transformer	33,991
Tank repair	<u>24,000</u>
	<u>102,119</u>

Construction Projects:

Phase two (W.P.C.):	
C.D.M. Ventilation design and construction	120,000
C.D.M. first phase of ocean data	211,000
Interest on lime stabilization	
construction	<u>60,000</u>
	<u>391,000</u>

Metcalf and Eddy Phase three design	
(Beverly/Danvers)	<u>28,000</u>
	<u>419,000</u>
	\$ <u>521,119</u>

MASS. 83. SES 1:1/ 186-99/
GOVERNMENT DOCUMENTS
COLLECTION
NOV 9 1986

SOUTH ESSEX SEWERAGE DISTRICT

Financial Statements

June 30, 1986

(With Accountants' Report Thereon)





Peat, Marwick, Mitchell & Co.
Certified Public Accountants
One Boston Place
Boston, Massachusetts 02108
617-723-7700

The Board of Directors
South Essex Sewerage District:

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In our opinion, the aforementioned financial statements present fairly the financial position of South Essex Sewerage District at June 30, 1986 and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceeding year.

Peat, Marwick, Mitchell & Co.

September 12, 1986

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SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1986

	General Fund	Capital Projects	Account Groups Fixed Assets	Long-term Debt	Combined Total (Memorandum only)
<u>Assets</u>					
Cash	\$ 793,097	221,459	-	-	1,014,556
Short-term investments, at cost (approximates market)	1,049,097	-	-	-	1,049,097
Due from Capital Projects Fund	28,960	-	-	-	28,960
Grant expenditures receivable:					
Submitted for reimbursement	-	1,246,239	-	-	1,246,239
Unsubmitted	-	3,058,190	-	-	3,058,190
Property, plant and equipment (note 3):					
Land	-	-	244,093	-	244,093
Waste treatment facilities	-	-	56,976,393	-	56,976,393
Amount to be provided for retirement of bonds payable	-	-	-	10,740,000	10,740,000
	<u>\$ 1,871,154</u>	<u>4,525,888</u>	<u>57,220,486</u>	<u>10,740,000</u>	<u>74,357,528</u>
<u>Liabilities, Deferred Revenue and Fund Equity</u>					
<u>Liabilities:</u>					
Due to General Fund	-	28,960	-	-	28,960
Short-term borrowings (note 4)	-	4,628,000	-	-	4,628,000
Member assessment refunds	532,542	-	-	-	532,542
Warrants payable	1,117	-	-	-	1,117
Bonds payable (note 5)	-	-	-	10,740,000	10,740,000
Total liabilities	<u>533,659</u>	<u>4,656,960</u>	<u>-</u>	<u>10,740,000</u>	<u>15,930,619</u>
Deferred revenue	-	3,058,190	-	-	3,058,190
<u>Fund equity:</u>					
Reserved for continuing appropriations (note 8)	351,541	387,105	-	-	738,646
Reserved for specific expenditures	-	48,705	-	-	48,705
Investment in fixed assets	543,853	-	57,220,486	-	57,220,486
Unreserved fund equity (deficit)	<u>-985,954</u>	<u>(3,625,072)</u>	<u>-</u>	<u>-</u>	<u>(2,639,118)</u>
Total fund equity (deficit)	<u>1,337,495</u>	<u>(3,189,262)</u>	<u>57,220,486</u>	<u>-</u>	<u>55,368,719</u>
	<u>\$ 1,871,154</u>	<u>4,525,888</u>	<u>57,220,486</u>	<u>10,740,000</u>	<u>74,357,528</u>

See accompanying notes to financial statements.

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SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures, Transfers and Changes in Fund Equity

General Fund

Year ended June 30, 1986

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,451,884	8,357,655	(1,094,229)
Interest	-	216,477	216,477
Septage receipts	-	38,501	38,501
Total revenues	<u>9,451,884</u>	<u>8,612,633</u>	<u>(839,251)</u>
Expenditures:			
General administration:			
Personnel costs	222,752	158,232	64,520
Expenses	<u>641,500</u>	<u>735,957</u>	<u>(94,457)</u>
	<u>864,252</u>	<u>894,189</u>	<u>(29,937)</u>
Engineering:			
Personnel costs	354,201	283,386	70,815
Expenses	<u>324,232</u>	<u>43,710</u>	<u>280,522</u>
	<u>678,433</u>	<u>327,096</u>	<u>351,337</u>
Operations:			
Personnel costs	802,887	605,410	197,477
Expenses	<u>4,145,490</u>	<u>3,310,638</u>	<u>834,852</u>
	<u>4,948,377</u>	<u>3,916,048</u>	<u>1,032,329</u>
Maintenance:			
Personnel costs	403,826	371,608	32,218
Expenses	<u>360,070</u>	<u>281,435</u>	<u>78,635</u>
	<u>763,896</u>	<u>653,043</u>	<u>110,853</u>
Construction debt service:			
Principal	1,040,000	1,040,000	-
Interest	<u>814,394</u>	<u>814,394</u>	<u>-</u>
	<u>1,854,394</u>	<u>1,854,394</u>	<u>-</u>
In lieu of taxes	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>9,179,352</u>	<u>7,714,770</u>	<u>1,464,582</u>
Excess of revenues over expenditures	\$ <u><u>272,532</u></u>	897,863	<u><u>625,331</u></u>
Transfer to Capital Projects Fund		(419,000)	478,863
Fund balance - June 30, 1985		<u>858,632</u>	
Fund balance - June 30, 1986		<u><u>1,337,495</u></u>	

See accompanying notes to financial statements.

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SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Funds

Year ended June 30, 1986

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Total</u>
Revenues:					
Member assessments	\$ -	64,127	46,374	30,754	141,255
Intergovernmental revenues	-	306,745	1,115,304	-	1,422,049
Interest earned	<u>2,443</u>	<u>2,135</u>	<u>21,074</u>	<u>1,040</u>	<u>26,692</u>
	<u>2,443</u>	<u>373,007</u>	<u>1,182,752</u>	<u>31,794</u>	<u>1,589,996</u>
Expenditures:					
Interest expense	-	64,127	46,374	30,754	141,255
Capital outlay	<u>-</u>	<u>1,028,487</u>	<u>1,869,336</u>	<u>19,294</u>	<u>2,917,117</u>
	<u>-</u>	<u>1,092,614</u>	<u>1,915,710</u>	<u>50,048</u>	<u>3,058,372</u>
Excess of expenditures over revenues	2,443	(719,607)	(732,958)	(18,254)	(1,468,376)
Transfer from General Fund	<u>-</u>	<u>391,000</u>	<u>28,000</u>	<u>-</u>	<u>419,000</u>
	<u>2,443</u>	<u>(328,607)</u>	<u>(704,958)</u>	<u>(18,254)</u>	<u>(1,049,376)</u>
Fund balance - June 30, 1985	<u>32,043</u>	<u>(1,257,863)</u>	<u>(349,478)</u>	<u>(564,588)</u>	<u>(2,139,886)</u>
Fund balance, June 30, 1986	\$ <u>34,486</u> ✓	<u>(1,586,470)</u>	<u>(1,054,436)</u>	<u>(582,842)</u> ✓	<u>(3,189,262)</u>

48,705.-

See accompanying notes to financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

June 30, 1986

(1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

(2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

(a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for its' fixed assets and long-term debt.

(Continued)

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
1950-1951

Page 1

The first part of the report deals with the general character of the work done during the year. It is a summary of the work done in the laboratory and is intended to give a general impression of the progress of the work. It is not intended to be a detailed account of the work done, but rather a summary of the work done. The second part of the report deals with the results of the work done during the year. It is a summary of the results of the work done and is intended to give a general impression of the progress of the work. It is not intended to be a detailed account of the work done, but rather a summary of the work done.

The third part of the report deals with the conclusions drawn from the work done during the year. It is a summary of the conclusions drawn from the work done and is intended to give a general impression of the progress of the work. It is not intended to be a detailed account of the work done, but rather a summary of the work done. The fourth part of the report deals with the suggestions for further work. It is a summary of the suggestions for further work and is intended to give a general impression of the progress of the work. It is not intended to be a detailed account of the work done, but rather a summary of the work done.

CONCLUSIONS AND SUGGESTIONS

The conclusions drawn from the work done during the year are as follows: (1) The work done during the year has been of a general character and has not been of a detailed character. (2) The work done during the year has been of a general character and has not been of a detailed character. (3) The work done during the year has been of a general character and has not been of a detailed character.

SUGGESTIONS

The suggestions for further work are as follows: (1) The work done during the year has been of a general character and has not been of a detailed character. (2) The work done during the year has been of a general character and has not been of a detailed character. (3) The work done during the year has been of a general character and has not been of a detailed character.

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred.

(c) Intergovernmental Revenue

Estimated reimburseable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not recognized as a cost of providing service and is not reflected in the financial statements of the District.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the district can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the district to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the district governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

(Continued)

THE HISTORY OF THE
CITY OF BOSTON

The first settlement in Boston was made in 1630, when a group of Puritan settlers, led by John Winthrop, arrived on the ship *Arcturion*. They established a colony on the eastern shore of Boston Harbor, which was then a small, undeveloped area. The settlers were motivated by religious and political ideals, seeking a place where they could practice their faith and govern themselves according to their own principles.

Over the years, the colony grew in size and importance. It became a center of trade and commerce, with ships from all over the world stopping at its wharves. The city's population increased steadily, and its influence expanded across the region. Despite facing numerous challenges, including conflicts with Native Americans and internal disputes, the colony persevered and emerged as a powerful and influential city.

In 1693, the city was incorporated as the City of Boston, marking a significant milestone in its history. This event solidified its status as a major urban center and gave it the legal authority to govern itself. The city continued to grow and develop, becoming a hub for intellectual and cultural life. Its role in the American Revolution was pivotal, as it was the site of many important events that shaped the new nation.

The city's history is filled with stories of courage, sacrifice, and achievement. From its humble beginnings as a small settlement to its current status as a major metropolitan area, Boston has always been a place of innovation and progress. Its rich heritage is preserved in its architecture, museums, and traditions, serving as a testament to the resilience and spirit of its people. The city's legacy continues to inspire and influence generations to come.

Boston's history is a testament to the power of human endeavor and the pursuit of a better life. It is a story of a city that has overcome adversity and emerged as a leader in its field. The city's unique character, shaped by its history and geography, makes it a place of great interest and significance. Its contributions to the world are many and varied, and its future is bright. As the city continues to evolve and grow, it remains a source of pride and inspiration for all who call it home.

The city's history is a testament to the power of human endeavor and the pursuit of a better life. It is a story of a city that has overcome adversity and emerged as a leader in its field. The city's unique character, shaped by its history and geography, makes it a place of great interest and significance. Its contributions to the world are many and varied, and its future is bright. As the city continues to evolve and grow, it remains a source of pride and inspiration for all who call it home.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(3) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group, by major category, at June 30, 1986, are as follows:

	<u>Balance at June 30, 1985</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 1986</u>
Land	\$ 244,093	-	-	244,093
Water treatment facilities:				
Phase I	11,525,426	-	-	11,525,426
Phase II	28,351,733	372,443	-	28,724,576
Phase III	9,136,673	1,348,904	-	10,485,577
Phase IV	<u>6,241,214</u>	<u>-</u>	<u>-</u>	<u>6,241,214</u>
	<u>55,255,046</u>	<u>1,721,347</u>	<u>-</u>	<u>56,976,393</u>
	\$ <u>55,499,139</u>	<u>1,721,347</u>	<u>-</u>	<u>57,220,486</u>

(4) Short-term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1986 are as follows:

	<u>Amount</u>	<u>Due date</u>	<u>Interest rate</u>
Century North Shore	\$ 200,000	6/27/87	4.3%
Bank of New England	<u>4,428,000</u>	6/27/87	4.7
	\$ <u>4,628,000</u>		

(Continued)

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(5) Bonds Payable

A summary of bonds payable at June 30, 1986 follows:

	Balance at June 30, 1985	Payments	Balance at June 30, 1986
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,230,000	155,000	1,075,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	740,000	40,000	700,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2000.	880,000	55,000	825,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	80,000	10,000	70,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	199,000	21,000	178,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,420,000	110,000	2,310,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	1,040,000	65,000	975,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,225,000	155,000	1,070,000
Fourth Series B 7.08% bonds payable in annual installments of \$191,064 through 1990, \$147,488 through 1991, \$144,136 through 1994, \$140,784 through 1995.	1,676,000	199,000	1,477,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,230,000	70,000	1,160,000

(Continued)

Published for the American Medical Association, 535 North Dearborn Street, Chicago, Ill. 60610

Original Article	Section	Author	Title
			The Role of the General Practitioner in the Management of the Patient with a Chronic Disease
100	Editorial	Editorial Board	The Role of the General Practitioner in the Management of the Patient with a Chronic Disease
101	Editorial	Editorial Board	The Role of the General Practitioner in the Management of the Patient with a Chronic Disease
102	Editorial	Editorial Board	The Role of the General Practitioner in the Management of the Patient with a Chronic Disease
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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

Second Series C 7.08% bonds payable in annual installments of \$71,250 through 1990, \$55,000 during 1991, \$53,750 through 1994, \$52,500 during 1995.	625,000	65,000	560,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1986.	100,000	50,000	50,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter through 1992	<u>335,000</u>	<u>45,000</u>	<u>290,000</u>
Total bonds payable	\$ <u>11,780,000</u>	<u>1,040,000</u>	<u>10,740,000</u>

The aggregate maturities of long-term debt follows:

<u>Year ended June 30:</u>	<u>Amount</u>
1987	\$ 1,040,000
1988	990,000
1989	985,000
1990	985,000
1991-1995	3,820,000
1996-2000	1,660,000
2001-2005	1,040,000
2006/thereafter	<u>220,000</u>
	\$ <u>10,740,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member cities, towns and institutions</u>
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).
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Marblehead Series and Act of 1972 Bonds	The Town of Marblehead.
--	-------------------------

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1986, the District was authorized to issue \$22,200,000 in connection with its construction projects.

(6) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement system. The system is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the system and certified by the Commonwealth of Massachusetts. Pension costs for the year ended June 30, 1986 amounted to \$201,000 and were charged to general fund operating expense.

(7) Litigation

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exists. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, is not determinable at this time.

(Continued)

THE UNIVERSITY OF CHICAGO

DEPARTMENT OF CHEMISTRY

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY
5700 S. DICKINSON DRIVE
CHICAGO, ILLINOIS 60637
(773) 835-5100
FAX (773) 835-5101
WWW.CHEM.UCHICAGO.EDU

RESEARCH INTERESTS

My research interests are in the area of physical chemistry, particularly in the area of molecular dynamics and spectroscopy. I am currently working on the development of new experimental techniques for the study of molecular dynamics and spectroscopy.

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SOUTH ESSEX SEWERAGE DISTRICT

Notes to Financial Statements

(8) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1986 are being carried forward to subsequent years as follows:

Maintenance and Operations:

Pickup truck	\$ 11,000
Bronco vehicle	13,000
Effluent water pump	1,300
Robbins-Myers Mazorators	24,000
Boat (monitoring, etc.)	30,000
Polymer Pumps	8,000
Standby transformer	28,331
Tank repair	30,000
Redwood flights	4,000
Influent Station repairs	7,500
Annual report	2,000
Model 303RAA spectrophometer	28,000
Evaluation of Peabody/Salem flow	50,310
OBG Operations, Inc. (operations and maintenance study)	<u>114,100</u>
	<u>351,541</u>

Construction Projects:

Tighe & Bond, Inc.	33,920
Odor control & HVAC evaluation	158,285
Camp, Dresser & McKee, Inc.	<u>194,900</u>
	<u>387,105</u>
	\$ <u>738,646</u>

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

RECEIVED BY THE DEPARTMENT OF CHEMISTRY

ON THE 10th DAY OF MAY 1961

TO THE

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OF THE

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KPMG Peat Marwick

Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements

June 30, 1987

(With Accountants' Report Thereon)



THE
JOURNAL OF THE
ROYAL ANTHROPOLOGICAL INSTITUTE
LONDON
1901

SOUTH ESSEX SEWERAGE DISTRICT
General Purpose Financial Statements
Year Ended June 30, 1987

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THE
FEDERAL GOVERNMENT
OF CANADA
DEPARTMENT OF
INDUSTRY

1911

THE
FEDERAL GOVERNMENT
OF CANADA
DEPARTMENT OF
INDUSTRY
1911

Certified Public Accountants

Peat Marwick Main & Co.

One Boston Place
Boston, MA 02108

Telephone 617 723 7700

Telex 617 443 0082 PMMBOST

Telex operator 617 723 6864

AUDITORS' REPORT ON GENERAL PURPOSE FINANCIAL STATEMENTS

The Board of Directors
South Essex Sewerage District:

We have examined the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1987 as listed in the table of contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The District is currently a defendant in a lawsuit as described in Note 9. The ultimate outcome of this lawsuit is not presently determinable and no provision has been made in the financial statements for the effect, if any, of such litigation.

In our opinion, subject to the effects on the general purpose financial statements of such adjustments, if any, as might have been required had the outcome of the uncertainty discussed in the preceding paragraph been known, the general purpose financial statements referred to above, present fairly the financial position of South Essex Sewerage District at June 30, 1987, and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Main & Co.

September 4, 1987

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SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Equity

General Fund

Year ended June 30, 1987

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,579,895	8,131,816	(1,448,079)
Interest	-	234,518	234,518
Septage receipts	-	18,350	18,350
Total revenues	<u>9,579,895</u>	<u>8,384,684</u>	<u>(1,195,211)</u>
Expenditures:			
General administration:			
Personnel costs	235,669	136,027	99,642
Expenses	<u>842,500</u>	<u>840,851</u>	<u>1,649</u>
	<u>1,078,169</u>	<u>976,878</u>	<u>101,291</u>
Engineering:			
Personnel costs	379,862	325,498	54,364
Expenses	<u>362,460</u>	<u>61,619</u>	<u>300,841</u>
	<u>742,322</u>	<u>387,117</u>	<u>355,205</u>
Operations:			
Personnel costs	847,416	650,179	197,237
Expenses	<u>3,973,650</u>	<u>3,520,518</u>	<u>453,132</u>
	<u>4,821,066</u>	<u>4,170,697</u>	<u>650,369</u>
Maintenance:			
Personnel costs	430,932	377,530	53,402
Expenses	<u>437,120</u>	<u>340,021</u>	<u>97,099</u>
	<u>868,052</u>	<u>717,551</u>	<u>150,501</u>
Construction debt service:			
Principal	1,040,000	1,040,000	-
Interest	<u>960,286</u>	<u>740,105</u>	<u>220,181</u>
	<u>2,000,286</u>	<u>1,780,105</u>	<u>220,181</u>
In lieu of taxes	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>9,579,895</u>	<u>8,102,348</u>	<u>1,477,547</u>
Excess of revenues over expenditures	<u>-</u>	282,336	<u>282,336</u>
Transfer to capital projects fund		(216,138)	
		66,198	
and balance - June 30, 1986		<u>1,337,495</u>	
and balance - June 30, 1987		<u>1,403,693</u>	

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Funds

Year ended June 30, 1987

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Total</u>
Revenues:					
Intergovernmental revenues \$	-	578,649	33,392	-	612,041
Interest earned	<u>1,863</u>	<u>-</u>	<u>3,444</u>	<u>2,596</u>	<u>7,903</u>
	<u>1,863</u>	<u>578,649</u>	<u>36,836</u>	<u>2,596</u>	<u>619,944</u>
Expenditures:					
Interest expense	-	66,812	120,970	28,356	216,138
Capital outlay	<u>-</u>	<u>1,335,188</u>	<u>945,478</u>	<u>-</u>	<u>2,280,666</u>
	<u>-</u>	<u>1,402,000</u>	<u>1,066,448</u>	<u>28,356</u>	<u>2,496,804</u>
Excess of revenues over expenditures	1,863	(823,351)	(1,029,612)	(25,760)	(1,876,860)
Transfer from general funds	<u>-</u>	<u>66,812</u>	<u>120,970</u>	<u>28,356</u>	<u>216,138</u>
	1,863	(756,539)	(908,642)	2,596	(1,660,722)
Balance (deficit) June 30, 1986	<u>34,486</u>	<u>(1,586,470)</u>	<u>(1,054,436)</u>	<u>(582,842)</u>	<u>(3,189,262)</u>
Balance (deficit), June 30, 1987	\$ <u>36,349</u>	<u>(2,343,009)</u>	<u>(1,963,078)</u>	<u>(580,246)</u>	<u>(4,849,984)</u>

Accompanying notes to general purpose financial statements.

UNIT 1: THE HISTORY OF THE UNITED STATES

1. The first part of the unit is a reading passage about the early history of the United States.

2. The second part is a listening exercise.

3. The third part is a writing exercise.

Activity	Topic	Objectives	Materials	Time	Notes
Reading	Early History	Understand the main ideas and details of the text.	Textbook, Handout	15 min	
Listening	Early History	Identify the main ideas and details of the audio.	Audio cassette, Handout	10 min	
Writing	Early History	Write a short paragraph about the early history of the United States.	Handout	15 min	
Speaking	Early History	Discuss the early history of the United States with a partner.	Handout	10 min	
Grammar	Early History	Review the grammar points covered in the unit.	Handout	10 min	
Vocabulary	Early History	Learn and use the vocabulary words from the unit.	Handout	10 min	
Project	Early History	Complete a project related to the early history of the United States.	Handout	30 min	
Assessment	Early History	Take a test to assess your understanding of the unit.	Handout	30 min	

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

June 30, 1987

(1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

(a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

The District maintains two account groups for purposes of establishing control and accountability for its fixed assets and long-term debt.

(Continued)

THE UNIVERSITY OF CHICAGO
DEPARTMENT OF CHEMISTRY

1954-1955

1954-1955

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

THE UNIVERSITY OF CHICAGO

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

1954-1955

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

The following is a list of the students who have been admitted to the Department of Chemistry for the year 1954-1955. The names are listed in alphabetical order of their last names. The first column gives the name of the student, the second column gives the name of the institution from which they were admitted, and the third column gives the date of admission.

1954-1955

Notes to General Purpose Financial Statements

(b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred. Interest on long-term debt is recorded as an expenditure when due.

(c) Intergovernmental Revenue

Estimated reimbursable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District, because assets are recorded as expenditures when purchased.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and are billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the District can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

(Continued)

Notes to General Purpose Financial Statements

(3) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$2,516,684, \$204,280 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The following table summarizes the carrying value, estimated market value and risk characteristics ("categories") of the District investments as of year end. Category 1 represents investments held in the name of the District by either the District or its agent; Category 2 represents investments held by counterparties to the transactions in the name of the District; and, Category 3 represents investments held by counterparties but not in the name of the District. Amounts in pooled investment accounts are not categorized.

<u>Deposits</u>	<u>Category</u>			<u>Estimated Carrying Amount</u>	<u>Market Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Bank accounts	\$ 204,280	-	\$ 1,312,404	\$ 1,516,684	\$ 1,516,684
Certificate of Deposit	-	-	1,000,000	1,000,000	1,000,000
Total	\$ <u>204,280</u>	<u>-</u>	\$ <u>2,312,404</u>	\$ <u>2,516,684</u>	\$ <u>2,516,684</u>

(4) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group by major category at June 30, 1987, is as follows:

	<u>Balance at June 30, 1986</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 1987</u>
Land	\$ 244,093	-	-	244,093
Water treatment facilities:				
Phase I	11,525,427	-	-	11,525,427
Phase II	28,724,178	1,335,188	-	30,059,366
Phase III	10,485,575	945,478	-	11,431,053
Phase IV	6,241,213	-	-	6,241,213
	<u>56,976,393</u>	<u>2,280,666</u>	<u>-</u>	<u>59,257,059</u>
	\$ <u>57,220,486</u>	<u>2,280,666</u>	<u>-</u>	<u>59,501,152</u>

(Continued)

Notes to General Purpose Financial Statements

(5) Short-Term Borrowings

The District regularly issues construction loan notes in anticipation of Federal and state grants and proceeds from the issuance of bonds. Short-term borrowings are repaid with grant or bond proceeds. Notes outstanding at June 30, 1987 are as follows:

	<u>Amount</u>	<u>Due date</u>	<u>Interest rate</u>
Century North Shore	\$ 200,000	6/23/88	4.43%
Bank of Boston	<u>5,086,000</u>	6/23/88	4.47%
	<u>\$ 5,286,000</u>		

(6) Bonds Payable

A summary of bonds payable at June 30, 1987 follows:

	<u>Balance at June 30, 1986</u>	<u>Payments</u>	<u>Balance at June 30, 1987</u>
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,160,000	70,000	1,090,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1992 and \$35,000 thereafter through 2004.	700,000	40,000	660,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2000.	825,000	55,000	770,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	70,000	10,000	60,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$22,686 through 1990, \$17,512 through 1991, \$17,114 through 1994, \$16,716 through 1995.	178,000	21,000	157,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2006.	2,310,000	110,000	2,200,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2000.	975,000	65,000	910,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,070,000	155,000	915,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

Fourth Series B 7.08% bonds payable in annual installments of \$191,064 through 1990, \$147,488 through 1991, \$144,136 through 1994, \$140,784 through 1995.	1,477,000	199,000	1,278,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	1,075,000	155,000	920,000
Second Series C 7.08% bonds payable in annual installments of \$71,250 through 1990, \$55,000 during 1991, \$53,750 through 1994, \$52,500 during 1995.	560,000	65,000	495,000
Marblehead Series 4.25% serial bonds payable in annual installments of \$50,000 through 1987.	50,000	50,000	-0-
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1987 and \$40,000 thereafter through 1992	<u>290,000</u>	<u>45,000</u>	<u>245,000</u>
Total bonds payable	\$ <u>10,740,000</u>	<u>1,040,000</u>	<u>9,700,000</u>

The aggregate maturities of long-term debt are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
1988	\$ 990,000
1989	985,000
1990	985,000
1991-1995	3,820,000
1996-2000	1,660,000
2001-2005	1,040,000
2006/thereafter	<u>220,000</u>
	\$ <u>9,700,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

(Continued)

			REMARKS
1911	1912	1913	...
1914	1915	1916	...
1917	1918	1919	...
1920	1921	1922	...
1923	1924	1925	...
1926	1927	1928	...
1929	1930	1931	...
1932	1933	1934	...
1935	1936	1937	...
1938	1939	1940	...
1941	1942	1943	...
1944	1945	1946	...
1947	1948	1949	...
1950	1951	1952	...
1953	1954	1955	...
1956	1957	1958	...
1959	1960	1961	...
1962	1963	1964	...
1965	1966	1967	...
1968	1969	1970	...
1971	1972	1973	...
1974	1975	1976	...
1977	1978	1979	...
1980	1981	1982	...
1983	1984	1985	...
1986	1987	1988	...
1989	1990	1991	...
1992	1993	1994	...
1995	1996	1997	...
1998	1999	2000	...
2001	2002	2003	...
2004	2005	2006	...
2007	2008	2009	...
2010	2011	2012	...
2013	2014	2015	...
2016	2017	2018	...
2019	2020	2021	...
2022	2023	2024	...
2025	2026	2027	...
2028	2029	2030	...
2031	2032	2033	...
2034	2035	2036	...
2037	2038	2039	...
2040	2041	2042	...
2043	2044	2045	...
2046	2047	2048	...
2049	2050	2051	...
2052	2053	2054	...
2055	2056	2057	...
2058	2059	2060	...
2061	2062	2063	...
2064	2065	2066	...
2067	2068	2069	...
2070	2071	2072	...
2073	2074	2075	...
2076	2077	2078	...
2079	2080	2081	...
2082	2083	2084	...
2085	2086	2087	...
2088	2089	2090	...
2091	2092	2093	...
2094	2095	2096	...
2097	2098	2099	...
2100	2101	2102	...
2103	2104	2105	...
2106	2107	2108	...
2109	2110	2111	...
2112	2113	2114	...
2115	2116	2117	...
2118	2119	2120	...
2121	2122	2123	...
2124	2125	2126	...
2127	2128	2129	...
2130	2131	2132	...
2133	2134	2135	...
2136	2137	2138	...
2139	2140	2141	...
2142	2143	2144	...
2145	2146	2147	...
2148	2149	2150	...
2151	2152	2153	...
2154	2155	2156	...
2157	2158	2159	...
2160	2161	2162	...
2163	2164	2165	...
2166	2167	2168	...
2169	2170	2171	...
2172	2173	2174	...
2175	2176	2177	...
2178	2179	2180	...
2181	2182	2183	...
2184	2185	2186	...
2187	2188	2189	...
2190	2191	2192	...
2193	2194	2195	...
2196	2197	2198	...
2199	2200	2201	...
2202	2203	2204	...
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SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

<u>Bond</u>	<u>Member Cities, Towns and Institutions</u>
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).
Marblehead Series and Act of 1972 Bonds	The Town of Marblehead.

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1987, the District was authorized to issue \$22,200,000 in connection with its construction projects.

(7) Pension Plan

The District's employees participate in the City of Salem Contributory Retirement System. The System is subject to the provisions of Chapter 32 of the Massachusetts General Laws. Annual contributions to the plan are determined by the Retirement Board of the System and certified by the Commonwealth of Massachusetts. Pension costs for the year ended June 30, 1987 amounted to \$307,905 and were charged to general fund operating expense.

(8) Fund Deficits

The deficits in the fund equity of the capital projects funds will be eliminated through future Federal and state grants and/or bond issues.

(9) Litigation

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

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Acceptance for mailing at special rate of postage provided for in Act of October 3, 1917, authorized on July 1, 1920.
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SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1987 are being carried forward to subsequent years as follows:

Maintenance and Operations:

Pickup Truck	\$ 11,000
Robbing-Myers Mazorators	11,312
Boat (monitoring, etc.)	30,000
Polymer Pumps	8,000
Standby Transformer	28,331
Tank Repair	27,589
Annual Report	2,000
Model 303RAA spectrophometer	28,000
Evaluation Peabody/Salem flow	<u>18,641</u>
	\$ <u>164,873</u>

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Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year ended June 30, 1988

(With Independent Auditors' Report Thereon)

Dear Sir,

I have the honor to acknowledge the receipt of your letter of the 8th inst. in relation to the above named matter.

I am, Sir, very respectfully,
Yours,
Very truly,
J. H. [Signature]

SOUTH ESSEX SEWERAGE DISTRICT
General Purpose Financial Statements
and Supplementary Schedule

Year Ended June 30, 1988

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Certified Public Accountants

Peat Marwick Main & Co.One Boston Place
Boston, MA 02108Telephone 617 723 7700
Telex 617 443 0082 PMMBOST

Telecopier 617 723 6864

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1988, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions; issued by the U.S. General Accounting office. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in note 8 to the financial statements, the District does not provide for pension costs in accordance with generally accepted accounting principles.

The District is currently a defendant in a lawsuit as described in note 10. The ultimate outcome of this lawsuit is not presently determinable and no provision has been made in the financial statements for the effect, if any, of such litigation.

In our opinion, except for the effects of such adjustments, if any, as might have been required had the District provided for pension costs in accordance with generally accepted accounting principles and had the outcome of the uncertainty discussed in the preceding paragraph been known, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1988, and the results of its operations and the changes in its fund equity for the year then ended, in conformity with generally accepted accounting principles.



Peat Marwick

To the Board of Directors
South Essex Sewerage District
Page Two

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedules listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedules have been subjected to the auditing procedures applied in our engagement to audit the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

-Peat Marwick Main & Co.

August 26, 1988

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SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - All Fund Types and Account Groups

June 30, 1988

Assets	Governmental Fund Types		Account Groups		Total (Memorandum only)
	General Fund	Capital Projects	Fixed Assets	Long-Term Debt	
Cash	\$ 2,076,743	1,083,635	-	-	3,160,378
Accounts receivable-septage	6,359	-	-	-	6,359
Grant expenditures receivable:					
Submitted for reimbursement	-	832,285	-	-	832,285
Unsubmitted	-	4,276,673	-	-	4,276,673
Property, plant and equipment (note 5):					
Land	-	-	244,093	-	244,093
Waste treatment facilities	-	-	63,996,953	-	63,996,953
Amount to be provided for retirement of bonds payable	-	-	-	8,738,446	8,738,446
Total assets	\$ 2,083,102	6,192,593	64,241,046	8,738,446	81,255,187
Liabilities and Fund Equity					
Liabilities:					
Chemical reimbursement refund	186,561	-	-	-	186,561
Short-term borrowings (note 6)	-	9,314,000	-	-	9,314,000
Member assessment refunds	341,015	-	-	-	341,015
Accrued liability:					
Vacation	-	-	-	28,446	28,446
Legal	20,858	-	-	-	20,858
Warrants payable	1,862	-	-	-	1,862
Bonds payable (note 7)	-	-	-	8,710,000	8,710,000
Deferred revenue	-	4,276,673	-	-	4,276,673
Total liabilities	550,296	13,590,673	-	8,738,446	22,879,415
Fund equity:					
Reserved for continuing appropriations (note 12)	416,773	-	-	-	416,773
Reserved for specific expenditures	-	54,547	-	-	54,547
Investment in fixed assets	-	-	64,241,046	-	64,241,046
Unreserved fund equity (deficit) (note 8)	1,116,033	(7,452,627)	-	-	(6,336,594)
Total fund equity (deficit)	1,532,806	(7,398,080)	64,241,046	-	58,375,772
	\$ 2,083,102	6,192,593	64,241,046	8,738,446	81,255,187

See accompanying notes to general purpose financial statements.

Combined Statement of Revenues, Expenditures and Changes
in Fund Equity - All Governmental Fund Types

Year ended June 30, 1988

	Governmental Fund Types		Total (Memorandum only)
	General Fund	Capital Projects	
Revenue:			
Assessment	\$ 8,420,813	\$ 327,625	\$ 8,748,438
Interest	237,011	46,226	283,237
Septage	43,127	-	43,127
Intergovernmental	-	1,995,466	1,995,466
Total revenues	<u>8,700,951</u>	<u>2,369,317</u>	<u>11,070,268</u>
Expenditures:			
General administration:			
Personnel costs	165,393	-	165,393
Expenses	<u>1,123,551</u>	<u>-</u>	<u>1,123,551</u>
	1,288,944	-	1,288,944
Engineering:			
Personnel costs	345,453	-	345,453
Expenses	<u>99,627</u>	<u>-</u>	<u>99,627</u>
	445,080	-	445,080
Operations:			
Personnel costs	649,904	-	649,904
Expenses	<u>3,392,369</u>	<u>-</u>	<u>3,392,369</u>
	4,042,273	-	4,042,273
Maintenance:			
Personnel costs	381,612	-	381,612
Expenses	<u>299,947</u>	<u>-</u>	<u>299,947</u>
	681,559	-	681,559
Construction debt service:			
Principal	990,000	-	990,000
Interest - long-term	666,877	-	666,877
Interest - short-term	<u>-</u>	<u>327,625</u>	<u>327,625</u>
	1,656,877	327,625	1,984,502
In lieu of taxes	70,000	-	70,000
Capital outlay	<u>-</u>	<u>4,976,893</u>	<u>4,976,893</u>
Total expenditures	<u>8,184,733</u>	<u>5,304,518</u>	<u>13,489,251</u>
Excess (deficiency) of revenues over expenditures	516,218	(2,935,201)	(2,418,983)
Other financing sources (uses):			
Operating transfer in (out)	<u>(387,105)</u>	<u>387,105</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures	129,113	(2,548,096)	(2,418,983)
Fund equity (deficit), beginning of year	<u>1,403,693</u>	<u>(4,849,984)</u>	<u>(3,446,291)</u>
Fund equity (deficit), end of year	\$ <u>1,532,806</u>	<u>(7,398,080)</u>	<u>(5,865,274)</u>

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues and Expenditures - Budgetary Basis

General Fund

Year ended June 30, 1988

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments	\$ 9,130,030	8,748,438	(381,592)
Interest	-	237,011	237,011
Septage receipts	-	36,767	36,767
Total revenues	<u>9,130,030</u>	<u>9,022,216</u>	<u>(107,814)</u>
Expenditures:			
General administration:			
Personnel costs	269,296	165,393	103,903
Expenses	<u>913,500</u>	<u>1,281,098</u>	<u>(367,598)</u>
	<u>1,182,796</u>	<u>1,446,491</u>	<u>(263,695)</u>
Engineering:			
Personnel costs	380,613	345,453	35,160
Expenses	<u>57,950</u>	<u>75,427</u>	<u>(17,477)</u>
	<u>438,563</u>	<u>420,880</u>	<u>17,683</u>
Operations:			
Personnel costs	697,471	649,904	47,567
Expenses	<u>3,704,500</u>	<u>3,489,869</u>	<u>214,631</u>
	<u>4,401,971</u>	<u>4,139,773</u>	<u>262,198</u>
Maintenance:			
Personnel costs	453,547	381,612	71,935
Expenses	<u>436,275</u>	<u>299,956</u>	<u>136,319</u>
	<u>889,822</u>	<u>681,568</u>	<u>208,254</u>
Construction debt service:			
Principal	990,000	990,000	-
Interest - long-term and short-term	<u>1,156,878</u>	<u>994,502</u>	<u>162,376</u>
	<u>2,146,878</u>	<u>1,984,502</u>	<u>162,376</u>
In lieu of taxes	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>9,130,030</u>	<u>8,743,214</u>	<u>386,816</u>
Excess of revenues over expenditures	-	279,002	279,002
Other financing sources (uses):			
Operating transfer	<u>-</u>	<u>(387,105)</u>	<u>(387,105)</u>
Excess of expenditures over revenues and other financing sources	\$ <u>-</u>	<u>(108,103)</u>	<u>(108,103)</u>

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

June 30, 1988

(1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by Federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

(2) Summary of Significant Accounting Policies

The District follows generally accepted accounting principles for governments. Significant accounting policies followed by the District are as follows:

(a) Fund Accounting

The District follows the principles of fund accounting. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The measurement focus is on determination of changes in financial position, rather than on net income. The fund types used by the District are as follows:

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in the Capital Projects Fund.

Capital Projects Funds - These funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from Federal and state grants.

Fixed Assets Account Group Funds - These funds are used to account for general fixed assets which are capitalized for financial statement purposes.

Account Group - The general long-term obligations account group is used to establish control and accountability for general long-term obligations of the District.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The District maintains two account groups for purposes of establishing control and accountability for its fixed assets and long-term debt.

(b) Basis of Accounting

The District uses the modified accrual basis of accounting. Revenues are recorded when they become both measurable and available. Expenditures, other than interest on long-term debt, are recorded in the accounting period that the liability is incurred. Interest on long-term debt is recorded as an expenditure when due.

(c) Intergovernmental Revenue

Estimated reimbursable costs under Federal and state grant agreements are accrued and initially recorded as deferred revenue. Grants are recorded as revenue upon written application to the respective governments for reimbursement of costs.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations". Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual flow of sewerage. At fiscal year end, estimated bills are adjusted to actual costs and sewerage flow. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility and are billed yearly.

A state-wide tax limitation statute known as "Proposition 2-1/2" limits the amount that the District can increase its total assessments to members by 2-1/2% annually. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable are recorded in the General Long-Term Obligations Account Group. The amount recorded is the unused days earned at the current rate of pay.

(h) Deferred Revenue

Deferred revenue is recognized for receivables, which are measurable but not available to finance current operations.

(i) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the General Long-Term Obligation Account Group.

(j) Total (Memorandum Only) Columns on General Purpose Financial Statements

Total (memorandum only) columns on general purpose financial statements are presented to aggregate financial data of the fund types and account group. No consolidating or eliminating entries were made in arriving at the totals; thus, they do not present consolidated information.

(3) Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are that:

- (a) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP);

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

- (b) Certain activities and transactions are presented in separate funds (GAAP) rather than as a component of the General Fund (budget).

In addition, there are certain differences in classifications between revenues, expenditures and transfers.

The following reconciliation summarizes the differences between the the budget and GAAP basis accounting principles for the year ended June 30, 1988:

	<u>Revenue</u>	<u>Expenditures</u>	Other financing sources (uses) net
As reported on a budget basis	\$ 9,022,216	8,743,214	(387,105)
Reclassification of transfers for debt service expenditures to other financing sources	-	21,044	-
Accrual for year-end revenue	6,360	-	-
Adjustment to reflect short- term interest expense and revenue in capital project fund	(327,625)	(327,625)	-
Adjustment for encumbrances and continuing appropriations	-	(251,900)	-
As reported on a GAAP basis	\$ <u>8,700,951</u>	<u>8,184,733</u>	<u>(387,105)</u>

(4) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. Government or Agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$3,160,078, \$264,523 was covered by federal depository insurance, and the remainder was uninsured and uncollateralized. The following table summarizes the carrying value, estimated market value and risk characteristics ("categories") of the District investments as of year end. Category 1 represents investments held in the name of the District by either the District or its agent; Category 2 represents investments held by counterparties to the transactions in the name of the District; and, Category 3 represents investments held by counterparties but not in the name of the District. Amounts in pooled investment accounts are not categorized.

<u>Deposits</u>	<u>Category</u>			<u>Total Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Bank accounts	\$ <u>264,523</u>	<u>-</u>	<u>3,462,753</u>	<u>3,727,276</u>	<u>3,160,378</u>

(5) Property, Plant and Equipment

Property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1988, is as follows:

	<u>Balance at June 30, 1987</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance at June 30, 1988</u>
Land	\$ <u>244,093</u>	<u>-</u>	<u>-</u>	<u>244,093</u>
Water treatment facilities:				
Phase I	11,525,427	-	-	11,525,427
Phase II	30,059,366	295,455	-	30,354,821
Phase III	11,431,053	4,444,439	-	15,875,492
Phase IV	<u>6,241,213</u>	<u>-</u>	<u>-</u>	<u>6,241,213</u>
	<u>59,257,059</u>	<u>4,739,894</u>	<u>-</u>	<u>63,996,953</u>
	\$ <u>59,501,152</u>	<u>4,739,894</u>	<u>-</u>	<u>64,241,046</u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

6) Temporary Borrowings

- Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:
 - o Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS).
 - o Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of Federal and state aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were approximately \$327,675 and are accounted for in the General Fund. At June 30, 1988, the following notes were outstanding:

<u>Type</u>	<u>Bank</u>	<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>
SAAN	Arlington Trust Bank	\$ 3,181,000	12/29/88	5.13%
SAAN	BayBank	3,000,000	12/29/88	4.97
SAAN	Boston Safe Deposit and Trust Co.	633,000	12/29/88	4.86
SAAN	Boston Safe Deposit and Trust Co.	1,000,000	12/29/88	5.00
SAAN	Boston Safe Deposit and Trust Co.	1,000,000	12/29/88	5.00
SAAN	Eastern Savings Bank	<u>500,000</u>	12/29/88	5.11
		<u>\$ 9,314,000</u>		

7) Bonds Payable

A summary of bonds payable at June 30, 1988 follows:

	<u>Balance at June 30, 1987</u>	<u>Payments</u>	<u>Balance at June 30, 1988</u>
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,090,000	70,000	1,020,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	660,000	40,000	620,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

	Balance at <u>June 30, 1987</u>	<u>Payments</u>	Balance at <u>June 30, 1988</u>
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	770,000	55,000	715,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	60,000	10,000	50,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1989, \$20,000 through 1994, \$15,000 through 1995.	157,000	21,000	136,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	2,200,000	110,000	2,090,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	910,000	65,000	845,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1989 and \$150,000 in 1991 through 1993.	915,000	155,000	760,200
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1989, \$200,000 in 1990, \$140,000 in 1991, \$135,000 through 1995.	1,278,000	199,000	1,079,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 and 1992.	920,000	155,000	765,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1990, \$60,000 through 1995.	495,000	65,000	430,000
Act of 1972 8.0% bonds payable in annual installments of \$45,000 through 1988 and \$40,000 thereafter through 1992	<u>245,000</u>	<u>45,000</u>	<u>200,000</u>
Total bonds payable	\$ <u><u>9,700,000</u></u>	<u><u>990,000</u></u>	<u><u>8,710,000</u></u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The aggregate maturities of long-term debt are as follows:

<u>Year ended June 30:</u>	<u>Amount</u>
1989	\$ 985,000
1990	985,000
1991	915,000
1992	905,000
1993	905,000
Thereafter	<u>4,015,000</u>
	<u>\$ 8,710,000</u>

The Bonds are general obligations of the South Essex Sewerage District and, to the extent not paid from other sources, will be payable as to both principal and interest from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member Cities, Towns and Institutions</u>
Series A Bonds	The Cities of Peabody and Salem.
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium and Essex County Industrial Farm).
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm).

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1988, the District was authorized to issue \$22,200,000 in connection with its construction projects.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(8) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a Cost-Sharing Multiple-Employer Public Employee Retirement System. The City's Retirement System is a member of the Massachusetts Contributory System and is governed by M.G.L.c. 32 of the Massachusetts General Laws. Participating employers' share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the Retirement System for the year ended June 30, 1988 was \$1,515,635. The total payroll for the District was \$1,542,425.

The City of Salem, Massachusetts Retirement System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the Retirement System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the systems after January 1, 1979 are subject to a cap of \$30,000 on the level of compensation upon which their benefit is calculated.

Members of the system become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the Participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits. The accounting records of the Retirement System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of the Public Employee Retirement Administration.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure measure to the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The System does not make separate measurements and pension benefit obligation for individual employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1988 contribution represented 8.45 percent of total contributions required of all participating entities.

(c) Contribution Requirements and Contribution Made

The Retirement System Funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employees Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the Retirement System for 1988 of \$437,806 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$343,191 (22.6% of current covered payroll); employees contributed \$94,615 (6.2% of current covered payroll).

(d) Trend Information

Under generally accepted accounting principles, the District is required to reference historical trend information included in the financial reports of the System. However, the System does not provide such information in their annual financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1988:

Capital projects:

Phase II	\$ (2,292,847)
Phase III	(4,567,149)
Phase IV	<u>(577,004)</u>
	\$ <u>(7,437,000)</u>

The deficits in these funds will be eliminated through future bond issues/Federal and state grants.

(10) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of clean up. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

(11) Operating Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. Operating transfers during the year were as follows:

	<u>Transfers In (Out)</u>	
	<u>General</u>	<u>Capital Projects</u>
Purpose of operating transfer:		
To account for capital expenditure	\$ <u>(387,105)</u>	<u>387,105</u>
	\$ <u>(387,105)</u>	<u>387,105</u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(12) Reserve for Continuing Appropriations

Certain amounts appropriated and raised, but not expended in fiscal year 1988 are being carried forward to subsequent years as follows:

Maintenance and Operations:

Pickup Truck	\$ 11,000
Robbing-Myers Mazorators	11,312
Boat (monitoring, etc.)	30,000
Polymer Pumps	8,000
Standby Transformer	28,331
Tank Repair	27,589
Annual Report	2,000
Evaluation Peabody/Salem flow	18,641
COD Analyzer	4,000
Graphite Furnace	28,000
FAX Machine	2,000
Station Wagon	16,000
Toxicity Testing and Chemical Analysis FY 88	10,600
Toxicity Testing and Chemical Analysis FY 89	72,000
Bioaccumulation Study Proposal FY 89	10,000
Industrial Sampling FY 89	36,000
Chemical Price Admustment	
Sodium hypochlorite	32,500
Polymer	5,000
Sodium hydroxide	60,000
Miscellaneous	<u>3,800</u>
	\$ <u>416,773</u>

SOUTH ESSEX SEWERAGE DISTRICT

Schedule of Cash Balances

June 30, 1988

Non-interest-bearing bank accounts:

State Street	\$ 1,454
Bank of New England	149,538
Century Bank	<u>10,000</u>

Total non-interest-bearing bank accounts	<u>160,992</u>
--	----------------

Interest-bearing bank accounts:

Bank of New England	2,066,443
Bank of Boston	38,917
BayBank	420,798
Arlington Trust	54,544
State Street Bank and Trust Co.	<u>418,384</u>

Total interest-bearing bank accounts	<u>2,999,086</u>
--------------------------------------	------------------

Cash and checks on hand	<u>300</u>
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Total cash balances as shown in general purpose financial statements	\$ <u><u>3,160,378</u></u>
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SOUTH ESSEX SEWERAGE DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1988

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Total</u>
Revenues:					
Assessment	\$ -	115,172	185,635	26,818	327,625
Intergovernmental	-	95,449	1,900,017	-	1,995,466
Interest	<u>2,570</u>	<u>-</u>	<u>40,414</u>	<u>3,242</u>	<u>46,226</u>
	<u>2,570</u>	<u>210,621</u>	<u>2,126,066</u>	<u>30,060</u>	<u>2,369,317</u>
Expenditures:					
Interest	-	115,172	185,635	26,818	327,625
Capital outlay	<u>-</u>	<u>432,392</u>	<u>4,544,501</u>	<u>-</u>	<u>4,976,893</u>
	<u>-</u>	<u>547,564</u>	<u>4,730,136</u>	<u>26,818</u>	<u>5,304,518</u>
Excess of revenues over expenditures	2,570	(336,943)	(2,604,070)	3,242	(2,935,201)
Operating transfer from general funds	<u>-</u>	<u>387,105</u>	<u>-</u>	<u>-</u>	<u>387,105</u>
	2,570	50,162	(2,604,070)	3,242	(2,548,096)
Fund balance (deficit) June 30, 1987	<u>36,349</u>	<u>(2,343,009)</u>	<u>(1,963,078)</u>	<u>(580,246)</u>	<u>(4,849,984)</u>
Fund balance (deficit), June 30, 1988	\$ <u>38,919</u>	<u>(2,292,847)</u>	<u>(4,567,148)</u>	<u>(577,004)</u>	<u>(7,398,080)</u>

See accompanying notes to general purpose financial statements.

MASS. Y3. SES 1: 1/989

KPMG Peat Marwick

Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year ended June 30, 1989

(With Independent Auditors' Report Thereon)

SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year Ended June 30, 1989

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1989, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities and Functions, issued by the U.S. General Accounting Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District is currently a defendant in two lawsuits as described in note 10. The ultimate outcome of these lawsuits is not presently determinable and no provision has been made in the general purpose financial statements for the effects, if any, of such litigation.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1989, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

To the Board of Directors
South Essex Sewerage District
Page Two

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Peat Marwick Min & Co.

September 1, 1989

SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1989

	Governmental			Account Groups		Total (Memorandum only)
	General Fund	Capital Projects	Fund Types	Fixed Assets	Long-Term Obligations	
Assets						
Cash	\$ 2,990,127	1,874,506		-	-	4,864,633
Accounts receivable septage	16,200	-		-	-	16,200
Reimbursable grant expenditures:						
Billed and unpaid	-	521,259		-	-	521,259
Not billed	-	3,101,982		-	-	3,101,982
Due from other funds	-	10,281		-	-	10,281
Property, plant and equipment (note 5):						
Land	-	-		244,093	-	244,093
Waste treatment facilities	-	-		65,658,933	-	65,658,933
Amount to be provided for retirement of general long-term obligations	-	-		-	7,751,124	7,751,124
Total assets	\$ 3,006,327	5,508,028		65,903,026	7,751,124	82,168,505
Liabilities and Fund Equity (Deficit)						
Liabilities:						
Warrants payable	323,536	61,711		-	-	385,247
Member refunds:						
Assessments	952,911	-		-	-	952,911
Chemical	186,561	-		-	-	186,561
Short-term borrowings (note 6)	-	8,814,000		-	-	8,814,000
Accrued liabilities:						
Vacation	-	-		-	26,124	26,124
Interest	288,524	-		-	-	288,524
Due to other funds	10,281	-		-	-	10,281
Bonds payable (note 7)	-	-		-	7,725,000	7,725,000
Deferred revenue	-	3,101,982		-	-	3,101,982
Total liabilities	1,761,813	11,977,693		-	7,751,124	21,490,630
Fund equity (deficit):						
Reserved for continuing appropriations (note 10)	314,221	54,546		-	-	368,767
Investment in fixed assets	-	-		65,903,026	-	65,903,026
Unreserved fund equity (deficit) (note 9)	930,293	(6,524,211)		-	-	(5,593,918)
Total fund equity (deficit)	1,244,514	(6,469,665)		65,903,026	-	60,677,875
\$ 3,006,327	5,508,028			65,903,026	7,751,124	82,168,505

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Combined Statement of Revenues, Expenditures and Changes in Fund Equity (Deficit) - All Governmental Fund Types

Year ended June 30, 1989

	Governmental Fund Types		Total
	General Fund	Capital Projects	(Memorandum only)
Revenues:			
Assessments to district members	\$ 8,534,486	\$ -	\$ 8,534,486
Interest	490,527	31,007	521,534
Mortgage	128,796	-	128,796
Intergovernmental	-	3,036,671	3,036,671
Total revenues	<u>9,153,809</u>	<u>3,067,678</u>	<u>12,221,487</u>
Expenditures:			
General administration:			
Personnel costs	196,859	-	196,859
Expenses	<u>1,078,514</u>	<u>-</u>	<u>1,078,514</u>
	<u>1,275,373</u>	<u>-</u>	<u>1,275,373</u>
Engineering:			
Personnel costs	422,858	-	422,858
Expenses	<u>102,800</u>	<u>-</u>	<u>102,800</u>
	<u>525,658</u>	<u>-</u>	<u>525,658</u>
Operations:			
Personnel costs	671,186	-	671,186
Expenses	<u>3,666,328</u>	<u>-</u>	<u>3,666,328</u>
	<u>4,337,514</u>	<u>-</u>	<u>4,337,514</u>
Maintenance:			
Personnel costs	417,149	-	417,149
Expenses	<u>270,023</u>	<u>-</u>	<u>270,023</u>
	<u>687,172</u>	<u>-</u>	<u>687,172</u>
Construction debt service:			
Principal	985,000	-	985,000
Interest - long-term debt	594,912	-	594,912
Interest - short-term debt	<u>545,285</u>	<u>-</u>	<u>545,285</u>
	<u>2,125,197</u>	<u>-</u>	<u>2,125,197</u>
Capital expenditures:			
In lieu of taxes	70,000	-	70,000
Capital outlay	-	2,139,263	2,139,263
Fund to district members	<u>421,187</u>	<u>-</u>	<u>421,187</u>
	<u>491,187</u>	<u>2,139,263</u>	<u>2,630,450</u>
Total expenditures	<u>9,431,820</u>	<u>2,139,263</u>	<u>11,581,364</u>
Excess of revenues over expenditures	(288,292)	928,415	640,123
Fund equity (deficit), beginning of year	<u>1,532,806</u>	<u>(7,398,080)</u>	<u>(5,865,274)</u>
Fund equity (deficit), end of year	\$ <u>1,244,514</u>	<u>(6,469,665)</u>	<u>(5,225,151)</u>

Accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues and Expenditures - Budgetary Basis

General Fund

Year ended June 30, 1989

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments to district members	\$ 9,363,332	8,534,486	(828,846)
Interest	-	490,527	490,527
Septage	-	118,955	118,955
Total revenues	<u>9,363,332</u>	<u>9,143,968</u>	<u>(219,364)</u>
Expenditures:			
General administration:			
Personnel costs	295,437	196,859	98,578
Expenses	<u>936,000</u>	<u>1,083,201</u>	<u>(147,201)</u>
	<u>1,231,437</u>	<u>1,280,060</u>	<u>(48,623)</u>
Engineering:			
Personnel costs	452,739	422,858	29,881
Expenses	<u>67,800</u>	<u>53,785</u>	<u>14,015</u>
	<u>520,539</u>	<u>476,643</u>	<u>43,896</u>
Operations:			
Personnel costs	725,479	671,186	54,293
Expenses	<u>3,653,581</u>	<u>3,628,962</u>	<u>24,619</u>
	<u>4,379,060</u>	<u>4,300,148</u>	<u>78,912</u>
Maintenance:			
Personnel costs	486,026	417,149	68,877
Expenses	<u>448,975</u>	<u>270,023</u>	<u>178,952</u>
	<u>935,001</u>	<u>687,172</u>	<u>247,829</u>
Construction debt service:			
Principal	985,000	985,000	-
Interest - long-term and short-term	<u>1,242,295</u>	<u>841,392</u>	<u>400,903</u>
	<u>2,227,295</u>	<u>1,826,392</u>	<u>400,903</u>
In lieu of taxes	70,000	70,000	-
Refunds to district members	<u>-</u>	<u>421,187</u>	<u>(421,187)</u>
	<u>70,000</u>	<u>491,187</u>	<u>(421,187)</u>
Total expenditures	<u>9,363,332</u>	<u>9,061,602</u>	<u>301,730</u>
Excess of revenues over expenditures	\$ <u>-</u>	<u>82,366</u>	<u>82,366</u>

accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

June 30, 1989

General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1989. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

(b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

- Governmental Fund Types

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

- Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the District except those accounted for in proprietary funds.

c) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.

A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts after the effective date totalled \$3,588 at June 30, 1989 and is included in unreserved fund equity.

(g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

(h) Deferred Revenue

Revenue is deferred when measurable but not available to finance current operations.

(i) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

(j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

(Continued)

Notes to General Purpose Financial Statements

Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures - Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP basis are that:

- (a) Continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),
- (b) Certain revenues and expenditures are recorded on a cash basis (budget) as opposed to a modified accrual basis (GAAP).

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1989:

	<u>Revenue</u>	<u>Expenditures</u>
As reported on a budgetary basis	\$ 9,143,968	9,061,602
Accrued interest	-	288,524
Adjustment for legal expense	-	(20,858)
Accrual for septage revenue	9,841	-
Adjustment for continuing appropriations	<u>-</u>	<u>102,552</u>
As reported on a GAAP basis	\$ <u>9,153,809</u>	<u>9,431,820</u>

) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels within collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$5,313,707, (carrying value \$4,864,633) \$272,655 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Property, Plant and Equipment

A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1989, is as follows:

	Balance at June 30, 1988	Additions	Balance at June 30, 1989
Land	\$ 244,093	-	244,093
Water treatment facilities:			
Phase I	11,525,427	-	11,525,427
Phase II	30,354,821	377,293	30,732,114
Phase III	15,875,492	1,284,687	17,160,179
Phase IV	6,241,213	-	6,241,213
	63,996,953	1,661,980	65,658,933
	\$ 64,241,046	1,661,980	65,903,026

Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FAANs and SAANs)

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$535,004 and are accounted for in the Capital Projects Fund. At June 30, 1989, the following notes were outstanding:

<u>Type</u>	<u>Bank</u>	<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>
SAAN	Shawmut Bank of Boston	\$ 1,000,000	7/28/89	6.74%
SAAN	Eastern Bank	500,000	7/28/89	7.00%
SAAN	Bank of New England	633,000	7/28/89	7.09%
SAAN	Baybank	2,100,000	7/28/89	6.80%
SAAN	Baybank	4,081,000	7/28/89	6.80%
BAN	Bank of New England	<u>500,000</u>	12/28/89	6.65%
		<u>\$ 8,814,000</u>		

Bonds Payable

A summary of bonds payable at June 30, 1989 follows:

	<u>Balance at June 30, 1988</u>	<u>Payments</u>	<u>Balance at June 30, 1989</u>
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 1,020,000	70,000	950,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	620,000	40,000	580,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

	Balance at <u>June 30, 1988</u>	<u>Payments</u>	Balance at <u>June 30, 1989</u>
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	715,000	55,000	660,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	50,000	10,000	40,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1990, \$20,000 through 1994, \$15,000 in 1995.	136,000	21,000	115,000
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	2,090,000	110,000	1,980,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	845,000	65,000	780,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 through 1993.	760,000	155,000	605,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1990, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	1,079,000	199,000	880,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	765,000	155,000	610,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	430,000	65,000	365,000
Act of 1972 8.0% bonds payable in annual installments of \$40,000 through 1992	<u>200,000</u>	<u>40,000</u>	<u>160,000</u>
Total bonds payable	\$ <u>8,710,000</u>	<u>985,000</u>	<u>7,725,000</u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The aggregate maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
1990	\$ 985,000
1991	915,000
1992	905,000
1993	905,000
1994	550,000
Thereafter	<u>3,465,000</u>
	\$ <u>7,725,000</u>

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member Cities, Towns and Institutions</u>
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1989, the District was authorized to issue \$22,200,000 in connection with its construction projects.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

6) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1989 was \$1,680,323. The total payroll for the District was \$1,708,051.

The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1989, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1989, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1989 contribution to the System represented 7.16 percent of total contributions required of all participating employers.

(c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1989 of \$418,454 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$311,701 (18.6% of current covered payroll); employees contributed \$106,753 (6.4% of current covered payroll).

(d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1989:

Capital projects:	
Phase II	\$ (2,811,505)
Phase III	(2,880,098)
Phase IV	(572,473)
Salem Acres	<u>(247,849)</u>
	<u>\$ (6,469,665)</u>

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

(10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1989, but not expended in fiscal year 1989 are being carried forward to subsequent years as follows:

General Fund

Maintenance and Operations:

Cost Apportionment Study	\$ 29,800
Robbins-Myers Mazorators	10,360
Plant Lighting Modifications	15,100
Laboratory Fume Hood Installation	15,000
Office Furniture	4,000
Tank Repair	27,589
Annual Report	2,000
Plant Landscaping	10,000
Sludge Process Bldg. HVAC Modifications	26,922
Toxicity Testing and Chemical Analysis	71,860
Bioaccumulation Study Proposal FY 89	65,590
Industrial Sampling FY 89	<u>36,000</u>

\$ 314,221

Capital Projects Fund

Escrow for work on Phase IV that was not satisfactorily completed.

\$ 54,546

(11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The District has also been named as a defendant in actions brought by the U.S. Environmental Protection Agency and the Commonwealth of Massachusetts regarding the District's discharges into Salem Harbor. These actions contend that the District is in violation of the Federal Clean Water Act and the State Clean Waters Act, and both actions are seeking an order to the District to construct secondary treatment facilities and also to pay civil penalties. The District has denied that payment of any civil penalty is warranted in either complaint. The District's legal counsel believes that the combined penalty payable to both the EPA and the Commonwealth would not exceed \$500,000. However, the actual penalty amount, if any, could exceed this amount.

SOUTH ESSEX SEWERAGE DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1989

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Salem Acres</u>	<u>Total</u>
Revenues:						
Intergovernmental	-	\$ -	3,036,671	-	-	3,036,671
Interest	<u>3,341</u>	<u>914</u>	<u>10,422</u>	<u>4,531</u>	<u>11,799</u>	<u>31,007</u>
	<u>3,341</u>	<u>914</u>	<u>3,047,093</u>	<u>4,531</u>	<u>11,799</u>	<u>3,067,678</u>
Expenditures:						
Capital outlay	<u>-</u>	<u>519,572</u>	<u>1,360,043</u>	<u>-</u>	<u>259,648</u>	<u>2,139,263</u>
Excess of revenues over expenditures	3,341	(518,658)	1,687,050	4,531	(247,849)	928,415
Fund balance (deficit) June 30, 1988	<u>38,919</u>	<u>(2,292,847)</u>	<u>(4,567,148)</u>	<u>(577,004)</u>	<u>-</u>	<u>(7,398,080)</u>
Fund deficit, June 30, 1989	\$ <u>42,260</u>	<u>(2,811,505)</u>	<u>(2,880,098)</u>	<u>(572,473)</u>	<u>(247,849)</u>	<u>(6,469,665)</u>

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KPMG Peat Marwick

Certified Public Accountants

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year ended June 30, 1990

(With Independent Auditors' Report Thereon)

SOUTH ESSEX SEWERAGE DISTRICT
General Purpose Financial Statements
and Supplementary Schedule

Year Ended June 30, 1990

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1990, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1990, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

To the Board of Directors
South Essex Sewerage District:

As disclosed in note 11 to the general purpose financial statements, the South Essex Sewerage District is involved in an administrative action alleging that the District used a particular site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The potential amount of clean-up costs cannot presently be determined. Accordingly, no liability has been recognized in the accompanying general purpose financial statements

KPMG Peat Marwick

August 24, 1990

SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1990

Assets	Governmental		Account Groups		Total (Memorandum only)
	General Fund	Capital Projects	Fixed Assets	Long-Term Obligations	
Cash	\$ 2,828,695	5,851,451	-	-	8,680,146
Accounts receivable members	199,768	-	-	-	199,768
Reimbursable grant expenditures:					
Billed and unpaid	-	5,173,224	-	-	5,173,224
Not billed	-	2,755,694	-	-	2,755,694
Property, plant and equipment (note 5):					
Land	-	-	244,093	-	244,093
Waste treatment facilities	-	-	73,170,486	-	73,170,486
Amount to be provided for retirement of					
general long-term obligations	-	-	-	6,764,405	6,764,405
Total assets	\$ 3,028,463	13,780,362	73,414,579	6,764,405	96,987,816
<u>Liabilities and Fund Equity (Deficit)</u>					
Liabilities:					
Warrants payable	\$ 437,891	31,919	-	-	469,810
Member refunds:					
Assessments	606,111	-	-	-	606,111
Chemical	373,122	-	-	-	373,122
Short-term borrowings (note 6)	-	19,614,000	-	-	19,614,000
Accrued liabilities:					
Vacation	-	-	-	24,405	24,405
Interest	379,211	-	-	-	379,211
Other	-	7,829	-	-	7,829
Bonds payable (note 7)	-	-	-	6,740,000	6,740,000
Deferred revenue	-	2,755,694	-	-	2,755,694
Total liabilities	1,796,335	22,409,442	-	6,764,405	30,970,182
Fund equity (deficit):					
Reserved for continuing appropriations (note 10)	104,158	59,075	-	-	163,233
Investment in fixed assets	-	-	73,414,579	-	73,414,579
Unreserved fund equity (deficit) (note 9)	1,127,970	(8,688,148)	-	-	(7,560,178)
Total fund equity (deficit)	1,232,128	(8,629,073)	73,414,579	-	66,017,634
	\$ 3,028,463	13,780,362	73,414,579	6,764,405	96,987,816

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Combined Statement of Revenues, Expenditures and Changes
in Fund Equity (Deficit) - All Governmental Fund Types

Year ended June 30, 1990

	Governmental Fund Types		Total
	General	Capital	(Memorandum
	<u>Fund</u>	<u>Projects</u>	<u>only</u>)
Revenues:			
Assessments to district members	\$ 9,044,292	-	9,044,292
Interest	318,920	170,200	489,120
Septage	150,472	-	150,472
Intergovernmental	-	6,540,225	6,540,225
Other	156,000	10,701	166,701
Total revenues	<u>9,669,684</u>	<u>6,721,126</u>	<u>16,390,810</u>
Expenditures:			
General administration:			
Personnel costs	195,500	-	195,500
Expenses	<u>1,150,874</u>	<u>-</u>	<u>1,150,874</u>
	<u>1,346,374</u>	<u>-</u>	<u>1,346,374</u>
Engineering:			
Personnel costs	371,563	-	371,563
Expenses	<u>36,538</u>	<u>-</u>	<u>36,538</u>
	<u>408,101</u>	<u>-</u>	<u>408,101</u>
Operations:			
Personnel costs	732,195	-	732,195
Expenses	<u>4,131,596</u>	<u>-</u>	<u>4,131,596</u>
	<u>4,863,791</u>	<u>-</u>	<u>4,863,791</u>
Maintenance:			
Personnel costs	460,162	-	460,162
Expenses	<u>421,703</u>	<u>-</u>	<u>421,703</u>
	<u>881,865</u>	<u>-</u>	<u>881,865</u>
Construction debt service:			
Principal	985,000	-	985,000
Interest - long-term debt	523,149	-	523,149
Interest - short-term debt	<u>376,190</u>	<u>-</u>	<u>376,190</u>
	<u>1,884,339</u>	<u>-</u>	<u>1,884,339</u>
In lieu of taxes	70,000	-	70,000
Capital outlay	-	8,880,534	8,880,534
Penalties	<u>227,600</u>	<u>-</u>	<u>227,600</u>
	<u>297,600</u>	<u>8,880,534</u>	<u>9,178,134</u>
Total expenditures	<u>9,682,070</u>	<u>8,880,534</u>	<u>18,562,604</u>
Excess of revenues over expenditures	(12,386)	(2,159,408)	(2,171,794)
Fund equity (deficit), beginning of year	<u>1,244,514</u>	<u>(6,469,665)</u>	<u>(5,225,151)</u>
Fund equity (deficit), end of year	\$ <u>1,232,128</u>	<u>(8,629,073)</u>	<u>(7,396,945)</u>

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues and Expenditures - Budgetary Basis

General Fund

Year ended June 30, 1990

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments to district members	\$ 9,490,365	9,044,292	(446,073)
Interest	-	318,920	318,920
Septage	106,050	150,472	44,422
Other	-	156,000	156,000
Total revenues	<u>9,596,415</u>	<u>9,669,684</u>	<u>73,269</u>
Expenditures:			
General administration:			
Personnel costs	293,589	195,500	98,089
Expenses	<u>1,071,500</u>	<u>1,150,874</u>	<u>(79,374)</u>
	<u>1,365,089</u>	<u>1,346,374</u>	<u>18,715</u>
Engineering:			
Personnel costs	409,235	371,563	37,672
Expenses	<u>56,200</u>	<u>36,538</u>	<u>19,662</u>
	<u>465,435</u>	<u>408,101</u>	<u>57,334</u>
Operations:			
Personnel costs	731,238	732,195	(957)
Expenses	<u>3,987,878</u>	<u>3,921,533</u>	<u>66,345</u>
	<u>4,719,116</u>	<u>4,653,728</u>	<u>65,388</u>
Maintenance:			
Personnel costs	491,507	460,162	31,345
Expenses	<u>391,050</u>	<u>421,703</u>	<u>(30,653)</u>
	<u>882,557</u>	<u>881,865</u>	<u>692</u>
Construction debt service:			
Principal	985,000	985,000	-
Interest - long-term and short-term	<u>1,109,218</u>	<u>899,339</u>	<u>209,879</u>
	<u>2,094,218</u>	<u>1,884,339</u>	<u>209,879</u>
In lieu of taxes	70,000	70,000	-
Penalties	<u>-</u>	<u>227,600</u>	<u>(227,600)</u>
	<u>70,000</u>	<u>297,600</u>	<u>(227,600)</u>
Total expenditures	<u>9,596,415</u>	<u>9,472,007</u>	<u>124,408</u>
Excess of revenues over expenditures	\$ <u>-</u>	<u>197,677</u>	<u>197,677</u>

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

June 30, 1990

(1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1990. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

(b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

- Governmental Fund Types

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

- Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the District.

(c) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.

(f) District Member Assessments

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

annual sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.

A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts totalled \$237,149 at June 30, 1990 and is included in unreserved fund equity.

(g) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

(h) Deferred Revenue

Revenue is deferred when measurable but not available to finance current operations.

(i) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

(j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(3) Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures - Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The difference between the budget and GAAP basis is that continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1990:

	<u>Revenue</u>	<u>Expenditures</u>
As reported on a budgetary basis	\$ 9,669,684	9,472,007
Adjustment for continuing appropriations	<u>-</u>	<u>210,063</u>
As reported on a GAAP basis	\$ <u>9,669,684</u>	<u>9,682,070</u>

4) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$8,706,934, (carrying value \$8,674,970) \$647,308 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

) Property, Plant and Equipment

A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1990, is as follows:

	Balance at June 30, 1989	Additions	Balance at June 30, 1990
Land	\$ 244,093	-	244,093
Water treatment facilities:			
Phase I	11,525,427	-	11,525,427
Phase II	30,732,114	1,818,342	32,550,456
Phase III	17,160,179	5,693,211	22,853,390
Phase IV	6,241,213	-	6,241,213
	65,658,933	7,511,553	73,170,486
	\$ 65,903,026	7,511,553	73,414,579

) Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state aid anticipation notes (FAANs and SAANs)

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$675,995 and are accounted for in the Capital Projects Fund. At June 30, 1990, the following notes were outstanding:

<u>Type</u>	<u>Bank</u>	<u>Amount</u>	<u>Due Date</u>	<u>Interest Rate</u>
SAAN	State Street Bank	\$ 2,100,000	9/12/90	6.35%
SAAN	State Street Bank	2,031,000	9/12/90	6.40%
SAAN	State Street Bank	1,633,000	9/12/90	6.45%
BAN	Eastern Bank	250,000	9/12/90	6.29%
SAAN	Eastern Bank	50,000	9/12/90	7.50%
SAAN	Bank of Boston	3,300,000	9/12/90	7.75%
BAN	Bank of New England	700,000	9/12/90	6.55%
BAN	Bank of New England	1,000,000	9/12/90	6.90%
SAAN	Bank of New England	1,250,000	9/12/90	6.75%
SAAN	Shawmut Bank	2,000,000	9/12/90	7.45%
SAAN	Shawmut Bank	<u>5,300,000</u>	9/12/90	7.59%
		<u>\$ 19,614,000</u>		

(7) Bonds Payable

A summary of bonds payable at June 30, 1990 follows:

	<u>Balance at June 30, 1989</u>	<u>Payments</u>	<u>Balance at June 30, 1990</u>
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 950,000	70,000	880,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	580,000	40,000	540,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	660,000	55,000	605,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	40,000	10,000	30,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1991, \$20,000 through 1994, \$15,000 in 1995.	115,000	20,000	95,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

	Balance at <u>June 30, 1989</u>	<u>Payments</u>	Balance at <u>June 30, 1990</u>
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	1,980,000	110,000	1,870,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	780,000	65,000	715,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 through 1993.	605,000	155,000	450,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1991, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	880,000	200,000	680,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	610,000	155,000	455,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	365,000	65,000	300,000
Act of 1972 8.0% bonds payable in annual installments of \$40,000 through 1992	<u>160,000</u>	<u>40,000</u>	<u>120,000</u>
Total bonds payable	\$ <u>7,725,000</u>	<u>985,000</u>	<u>6,740,000</u>

The aggregate maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
1991	\$ 915,000
1992	905,000
1993	905,000
1994	555,000
1995	550,000
Thereafter	<u>2,910,000</u>
	\$ <u>6,740,000</u>

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member Cities, Towns and Institutions</u>
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1990, the District was authorized to issue \$30,000,000 of original issue debt in connection with its construction projects.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(8) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1990 was \$1,732,980. The total payroll for the District was \$1,759,420.

The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1990, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1990, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1990 contribution to the System represented 7.34 percent of total contributions required of all participating employers.

(c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1990 of \$446,493 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$327,050 (18.9% of current covered payroll); employees contributed \$119,443 (6.9% of current covered payroll).

(d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1990:

Capital projects:	
Phase II	\$ (2,836,592)
Phase III	(3,758,003)
Phase IV	(544,014)
Salem Acres	<u>(1,536,119)</u>
	\$ <u>(8,674,728)</u>

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

(10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1990, but not expended in fiscal year 1990 are being carried forward to subsequent years as follows:

General Fund

Maintenance and Operations:

Robbins-Myers Mazorators	\$ 10,360
Plant Lighting Modifications	599
Laboratory Fume Hood Installation	15,000
Office Furniture	4,000
Tank Repair	3,324
Annual Report	2,000
Plant Landscaping	424
Toxicity Testing and Chemical Analysis	58,090
Industrial Sampling FY 89	<u>10,361</u>

\$ 104,158

Capital Projects Fund

Escrow for work on Phase IV that was
not satisfactorily completed.

\$ 59,075

(11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

SOUTH ESSEX SEWERAGE DISTRICT

Combining Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1990

	<u>Phase I</u>	<u>Phase II</u>	<u>Phase III</u>	<u>Phase IV</u>	<u>Salem Acres</u>	<u>Total</u>
Revenues:						
Intergovernmental	-	\$ 1,959,906	4,580,319	-	-	6,540,225
Interest	3,395	28,089	92,685	17,758	28,273	170,200
Other	-	-	-	10,701	-	10,701
	<u>3,395</u>	<u>1,987,995</u>	<u>4,673,004</u>	<u>28,459</u>	<u>28,273</u>	<u>6,721,126</u>
Expenditures:						
Capital outlay	-	2,013,082	5,550,909	-	1,316,543	8,880,534
Excess of revenues over expenditures	3,395	(25,087)	(877,905)	28,459	(1,288,270)	(2,159,408)
Fund balance (deficit)						
June 30, 1989	<u>42,260</u>	<u>(2,811,505)</u>	<u>(2,880,098)</u>	<u>(572,473)</u>	<u>(247,849)</u>	<u>(6,469,665)</u>
Fund deficit, June 30, 1990	\$ <u>45,655</u>	<u>(2,836,592)</u>	<u>(3,758,003)</u>	<u>(544,014)</u>	<u>(1,536,119)</u>	<u>(8,629,073)</u>

MASS. Y3. SES1:1/991

KPMG Peat Marwick

Certified Public Accountants

SOUTH ESSEX SEWERAGE DISTRICT

✓ General Purpose Financial Statements
and Supplementary Schedule

Year ended June 30, 1991

(With Independent Auditors' Report Thereon)

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SOUTH ESSEX SEWERAGE DISTRICT

General Purpose Financial Statements
and Supplementary Schedule

Year Ended June 30, 1991

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
South Essex Sewerage District:

We have audited the general purpose financial statements of the South Essex Sewerage District as of and for the year ended June 30, 1991, as listed in the accompanying table of contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the South Essex Sewerage District at June 30, 1991, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The supplementary schedule listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the South Essex Sewerage District. The supplementary schedule has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

To the Board of Directors
South Essex Sewerage District:

As disclosed in note 11 to the general purpose financial statements, the South Essex Sewerage District is involved in an administrative action alleging that the District used a particular site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The potential amount of clean-up costs cannot presently be determined. Accordingly, no liability has been recognized in the accompanying general purpose financial statements.

KPMG Peat Marwick

September 30, 1991

SOUTH ESSEX SEWERAGE DISTRICT

Combined Balance Sheet - Governmental Fund Types and Account Groups

June 30, 1991

Assets	Governmental			Long-Term		Total
	General Fund	Capital Projects	Fixed Assets	Debt	Investments	
Cash and investments	\$ 1,189,723	732,800	-	-	-	1,922,523
District member receivable	-	-	-	-	-	-
Reimbursable grant expenditures:						
Billed and unpaid	-	3,211,095	-	-	-	3,211,095
Not billed	-	139,478	-	-	-	139,478
Property, plant and equipment (note 5):						
Land	-	-	244,093	-	-	244,093
Waste treatment facilities	-	-	83,850,190	-	-	83,850,190
Due from other funds	-	1,102,260	-	-	-	1,102,260
Amount to be provided for retirement of						
general long-term obligations	-	-	-	12,173,322	-	12,173,322
Total assets	\$ 4,922,523	8,702,495	84,094,283	12,173,322	-	109,892,623
Liabilities and Fund Equity (Deficit)						
Liabilities:						
Warrants payable	\$ 531,210	354,982	-	-	-	886,192
Short-term borrowings (note 6)	-	14,684,099	-	-	-	14,684,099
Accrued liabilities:						
Vacation	-	-	-	48,322	-	48,322
Interest	347,442	-	-	-	-	347,442
Other	-	7,830	-	-	-	7,830
Bonds payable (note 7)	-	-	-	12,125,000	-	12,125,000
Deferred revenue	-	139,478	-	-	-	139,478
Due to other funds	1,102,260	-	-	-	-	1,102,260
Total liabilities	1,980,912	15,186,389	-	12,173,322	-	29,340,623
Fund equity (deficit):						
Reserved for continuing appropriations (note 10)	580,343	-	-	-	-	580,343
Investment in fixed assets	-	-	84,094,283	-	-	84,094,283
Unreserved fund equity (deficit) (notes 9 and 12)	2,361,268	(6,483,894)	-	-	-	(4,122,626)
Total fund equity (deficit)	2,941,611	(6,483,894)	84,094,283	-	-	80,552,000
	\$ 4,922,523	8,702,495	84,094,283	12,173,322	-	109,892,623

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Combined Statement of Revenues, Expenditures and Changes
in Fund Equity (Deficit) - All Governmental Fund Types

Year ended June 30, 1991

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Projects</u>	<u>only)</u>
Revenues:			
Assessments to district members	\$ 11,296,625	-	11,296,625
Interest	407,594	387,321	794,915
Storage	190,352	-	190,352
Intergovernmental	-	6,968,483	6,968,483
Other	54,370	-	54,370
Total revenues	<u>11,948,941</u>	<u>7,355,804</u>	<u>19,304,745</u>
Expenditures:			
General administration:			
Personnel costs	224,087	-	224,087
Expenses	<u>1,082,159</u>	<u>-</u>	<u>1,082,159</u>
	<u>1,306,246</u>	<u>-</u>	<u>1,306,246</u>
Engineering:			
Personnel costs	355,584	-	355,584
Expenses	<u>57,342</u>	<u>-</u>	<u>57,342</u>
	<u>412,926</u>	<u>-</u>	<u>412,926</u>
Operations:			
Personnel costs	768,654	-	768,654
Expenses	<u>4,325,182</u>	<u>-</u>	<u>4,325,182</u>
	<u>5,093,836</u>	<u>-</u>	<u>5,093,836</u>
Maintenance:			
Personnel costs	483,347	-	483,347
Expenses	<u>326,930</u>	<u>-</u>	<u>326,930</u>
	<u>810,277</u>	<u>-</u>	<u>810,277</u>
Construction debt service:			
Principal	915,000	-	915,000
Interest - long-term debt	823,156	-	823,156
Interest - short-term debt	<u>1,278,756</u>	<u>-</u>	<u>1,278,756</u>
	<u>3,016,912</u>	<u>-</u>	<u>3,016,912</u>
In lieu of taxes	70,000	-	70,000
Capital outlay	<u>-</u>	<u>11,461,741</u>	<u>11,461,741</u>
	<u>70,000</u>	<u>11,461,741</u>	<u>11,531,741</u>
Total expenditures	<u>10,710,197</u>	<u>11,461,741</u>	<u>22,171,938</u>
Excess (deficiency) of revenues over expenditures	1,238,744	(4,105,937)	(2,867,193)
Financing sources - proceeds bond issues (note 7)	<u>-</u>	<u>6,300,000</u>	<u>6,300,000</u>
Excess of revenues and other financing sources over expenditures	\$ <u>1,238,744</u>	<u>2,194,063</u>	<u>3,432,807</u>

SOUTH ESSEX SEWERAGE DISTRICT

Combined Statement of Revenues, Expenditures and Changes
in Fund Equity (Deficit) - All Governmental Fund Types
(Continued)

Year ended June 30, 1991

	<u>Governmental Fund Types</u>		<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Projects</u>	<u>only)</u>
fund equity (deficit), beginning of year, as previously reported	\$ 1,232,128	(8,629,073)	(7,396,945)
adjustment to reclassify member refunds as fund equity (note 2)	<u>967,063</u>	<u>-</u>	<u>967,063</u>
fund equity (deficit), beginning of year, as restated	2,199,191	(8,629,073)	(6,429,882)
distributions to members	(545,208)	-	(545,208)
transfer of Phase I residual equity	<u>48,884</u>	<u>(48,884)</u>	<u>-</u>
fund equity (deficit), end of year	\$ <u>2,941,611</u>	<u>(6,483,894)</u>	<u>(3,542,283)</u>

See accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Statement of Revenues and Expenditures - Budgetary Basis

General Fund

Year ended June 30, 1991

	Original Budget	Actual	Favorable (Unfavorable) Variances
Revenues:			
Assessments to district members	\$ 13,149,160	11,296,625	(1,852,535)
Interest	-	407,594	407,594
Setage	159,478	167,788	8,310
Other	-	54,370	54,370
Total revenues	<u>13,308,638</u>	<u>11,926,377</u>	<u>(1,382,261)</u>
Expenditures:			
General administration:			
Personnel costs	365,167	224,087	141,080
Expenses	<u>1,318,140</u>	<u>1,082,159</u>	<u>235,981</u>
	<u>1,683,307</u>	<u>1,306,246</u>	<u>377,061</u>
Engineering:			
Personnel costs	418,481	355,584	62,897
Expenses	<u>63,850</u>	<u>57,342</u>	<u>6,508</u>
	<u>482,331</u>	<u>412,926</u>	<u>69,405</u>
Operations:			
Personnel costs	760,975	778,154	(17,179)
Expenses	<u>5,581,800</u>	<u>4,890,947</u>	<u>690,853</u>
	<u>6,342,775</u>	<u>5,669,101</u>	<u>673,674</u>
Maintenance:			
Personnel costs	516,114	483,347	32,767
Expenses	<u>479,655</u>	<u>344,092</u>	<u>135,563</u>
	<u>995,769</u>	<u>827,439</u>	<u>168,330</u>
Construction debt service:			
Principal	915,000	915,000	-
Interest - long-term and short-term	<u>2,819,456</u>	<u>2,101,912</u>	<u>717,544</u>
	<u>3,734,456</u>	<u>3,016,912</u>	<u>717,544</u>
In lieu of taxes	<u>70,000</u>	<u>70,000</u>	<u>-</u>
	<u>70,000</u>	<u>70,000</u>	<u>-</u>
Total expenditures	<u>13,308,638</u>	<u>11,302,624</u>	<u>2,006,014</u>
Excess of revenues over expenditures	\$ <u>-</u>	<u>623,753</u>	<u>623,753</u>

Accompanying notes to general purpose financial statements.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

June 30, 1991

1) General

The South Essex Sewerage District was established by an Act of the Commonwealth of Massachusetts, Chapter 339 of the Acts of 1925, for the purpose of building, maintaining, and operating a system of sewerage collection and disposal for the cities of Beverly, Peabody and Salem, the Town of Danvers and certain state and county institutions. In 1972, the Town of Marblehead joined the District. In 1973, the Ferncroft Village section of Middleton was included and in 1977 the Gordon College campus in Wenham was approved for inclusion in the District.

In 1969, the Commonwealth of Massachusetts enacted legislation providing for the construction of sewerage works and facilities for the South Essex Sewerage District to be funded by federal and state grants and serial bonds. The Acts of 1925 and 1969 state that the costs of maintenance and operations and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District.

Costs incurred by the District include capital costs, which are the costs of construction projects and facility improvements or related debt, and maintenance and operating costs, which are all other costs. Estimated bills for maintenance and operating costs are sent to each member of the District on a quarterly basis, based on budgeted cost and estimated annual sewerage flow and other factors. At fiscal year end, estimated bills are adjusted for actual results. Capital costs are apportioned to the members of the District in accordance with agreements reached between the members with respect to the portions of total capital outlay for which they have responsibility. Such costs are billed yearly.

A statewide tax limitation statute known as "Proposition 2-1/2" limits annual increases in total assessments to members by 2-1/2%. Massachusetts law allows the District to increase its budget over the 2-1/2% annual increment utilizing an override procedure that first requires a two-thirds vote of the District governing body and, thereafter, the approval of two-thirds of the local appropriating authorities of the member municipalities.

In 1990, the Commonwealth of Massachusetts enacted legislation providing for the construction of a secondary waste treatment plant. This amendment of the Acts of 1969 states that the costs of maintenance and operation and the costs of construction shall be apportioned to the respective cities, towns and other institutions serviced by the District. These costs are exempt from the limitations of "Proposition 2-1/2" until the facilities have been operated for a period of three years.

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

During 1989, the member communities voted to set up separate bank accounts for their assessment payments so that the interest earned on these payments would be specifically credited to their accounts. Such interest earned on member's accounts totalled \$336,999 at June 30, 1991 and is included in unreserved fund equity.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

The financial condition and results of operations of the District's funds are presented as of and for the year ended June 30, 1991. The accounting policies of the District conform with generally accepted accounting principles ("GAAP").

(b) Fund Accounting

The operations of the District are recorded in the following fund types and account groups:

- Governmental Fund Types

Governmental funds are used to account for the District's expendable financial resources and related liabilities. The measurement focus is upon determination of changes in financial position. The following are the District's governmental fund types:

General Fund - The general fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Capital Project Funds - Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived principally from proceeds of general obligation bonds and from federal and state grants.

- Account Groups

General Fixed Assets Account Group - This account group is used to account for general fixed assets which are capitalized for financial statement purposes.

General Long-term Obligations Account Group - This account group is used to account for all long-term obligations of the District.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(c) Basis of Accounting

The modified accrual basis of accounting is followed by governmental funds. Under the modified accrual basis of accounting, revenues are recorded when they become measurable and available to pay liabilities of the current period. Revenues not considered available are recorded as deferred revenues. Expenditures are recorded when the liability is incurred except for (1) interest on general long-term obligations, which is recorded when due, and (2) the noncurrent portion of accrued vacation leave, which is recorded in the general long-term obligations account group.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the District; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Assessments and septage income are recognized as revenue in the year for which they have been billed. Investment earnings are recorded as earned.

(d) Fixed Assets

Fixed assets are stated at cost or estimated cost if actual cost is not available. Amounts expended for engineering studies are capitalized only when the studies result in a capital project being undertaken. Depreciation expense is not reflected in the financial statements of the District because assets are recorded as expenditures when purchased or when the related long-term debt is paid.

(e) Continuing Appropriations

Appropriations which are carried over to the ensuing fiscal year are reported as "continuing appropriations." Continuing appropriations represent amounts appropriated for specific programs or projects which were not completed during the fiscal year. Continuing appropriations are reported as reservations of fund balances in the accompanying combined balance sheet because they do not constitute expenditures or liabilities.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(f) Accrued Vacation

Employees are granted vacation in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation (subject to certain limitations) at their then current rates of pay. The amount of vacation costs which are not due and payable is recorded in the general long-term obligations account group. The amount recorded is the unused days earned at the current rate of pay.

(g) Deferred Revenue

Revenue is deferred when measurable but not available to finance current operations.

(h) Accrued Judgments and Claims

Estimated losses from judgments and claims are recorded as liabilities if the loss is probable and amounts can be reasonably estimated. Governmental Type Funds follow the practice of recording losses from judgments and claims as a fund liability in instances where a matter has been settled or adjudicated. The remaining estimated losses are recorded as liabilities in the general long-term obligations account group.

(i) Member Assessment Refunds

During the year the District changed its method of accounting for member assessment refunds. Prior to fiscal 1991 such refunds were reflected in liabilities; however, certain members historically retained their balances in the District.

Accordingly, the District now accounts for such refunds as equity. Unreserved fund equity can be distributed to members at their request.

(j) Total Columns

Total columns on the general purpose financial statements are captioned "Memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or changes in financial position in conformity with generally accepted accounting principles. Such data are not comparable to a consolidation since interfund eliminations have not been made.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(3) Budgetary Basis of Accounting

The District must establish its assessment rate each year so that the resulting assessment will comply with the limits required by Proposition 2-1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all other revenues and transfers projected to be received by the District, including available surplus funds.

The budgets for all departments and operations of the District are prepared under the direction of the Board of Directors.

The District's General Fund budget is prepared on a basis other than generally accepted accounting principles ("GAAP"). The "actual" results column of the Statement of Revenues and Expenditures - Budgetary Basis is presented on a "budget basis" to provide a meaningful comparison with the budget. The difference between the budget and GAAP basis is that continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP),

The following reconciliation summarizes the differences between budget and GAAP basis accounting principles for the year ended June 30, 1991:

	<u>Revenue</u>	<u>Expenditures</u>
As reported on a budgetary basis	\$ 11,926,377	11,302,624
Adjustment for accrual of septage revenue	22,564	-
Adjustment for continuing appropriations	<u>-</u>	<u>(592,427)</u>
As reported on a GAAP basis	\$ <u>11,948,941</u>	<u>10,710,197</u>

(4) Deposits

State and local statutes place certain limitations on the nature of deposits and investments available to the District. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase and units in the Massachusetts Municipal Depository Trust ("MMDT").

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The District maintains deposits in several financial institutions. Of the total amount of bank recorded deposits at year end of \$6,700,910, (carrying value \$6,641,048) \$1,693,161 was covered by federal depository insurance and the remainder was uninsured and uncollateralized.

Investments

All of the District's investments are held in the individual member names by the District's investment custodian. All investments are uninsured. Investments at June 30, 1991 consist of the following:

	<u>Cost</u>	<u>Market value</u>
Corporate Bonds	\$ 1,191,671	1,138,500
U.S. Treasury Bills	396,173	399,272
Total Investments	\$ <u>1,587,844</u>	<u>1,537,772</u>

(5) Property, Plant and Equipment

A summary of property, plant and equipment of the fixed asset account group by major category, at cost, at June 30, 1991, is as follows:

	<u>Balance at June 30, 1990</u>	<u>Additions</u>	<u>Balance at June 30, 1991</u>
Land	\$ 244,093	-	244,093
Water treatment facilities:			
Phase I	11,525,427	-	11,525,427
Phase II	32,550,456	4,169,312	36,719,768
Phase III	22,853,390	4,840,236	27,693,626
Phase IV	6,241,213	1,807	6,243,020
Phase VI	-	1,668,349	1,668,349
	<u>73,170,486</u>	<u>10,679,704</u>	<u>83,850,190</u>
	\$ <u>73,414,579</u>	<u>10,679,704</u>	<u>84,094,283</u>

(6) Temporary Borrowings

Under state law and by authorization of the Board of Directors, the District is authorized to borrow on a temporary basis to fund the following:

- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS)
- Federal and state aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state anticipation notes (FANS and SANs)

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

Temporary loans are general obligations of the District and carry maturity dates which are limited by statute. Interest expenditures for temporary borrowings were \$1,278,756 and are accounted for in the Capital Projects Fund. At June 30, 1991, the following notes were outstanding:

Type	Bank	Amount	Due Date	Interest Rate	Capital Project Phase
FAN/SAN	Fleet Bank of Massachusetts	\$ 633,000	7/15/91	7.25%	IV
FAN/SAN	Fleet Bank of Massachusetts	800,000	8/6/91	6.10%	II
FAN/SAN	Fleet Bank of Massachusetts	3,000,000	8/6/91	5.90%	II
FAN/SAN	Fleet Bank of Massachusetts	1,000,000	8/6/91	6.10%	II
FAN/SAN	Fleet Bank of Massachusetts	2,000,000	8/6/91	6.10%	II
FAN/SAN	Fleet Bank of Massachusetts	699,600	8/6/91	6.25%	II
FAN/SAN	Lincoln Trust	300,000	8/6/91	5.95%	II
BAN	Fleet Bank of Massachusetts	500,000	11/15/91	5.85%	V
FAN/SAN	Fleet Bank of Massachusetts	700,000	11/26/91	5.60%	VI
FAN/SAN	Fleet Bank of Massachusetts	<u>5,051,499</u>	12/18/91	5.90%	II and III
		<u>\$ 14,684,099</u>			

(7) Bonds Payable

A summary of bonds payable at June 30, 1991 follows:

	Balance at June 30, 1990	Additions	Payments	Balance at June 30, 1991
First Series A 5.5% serial bonds payable in annual installments of \$70,000 through 1996 and \$65,000 thereafter through 2002.	\$ 880,000	-	70,000	810,000
Second Series A 6.875% serial bonds payable in annual installments of \$40,000 through 1993 and \$35,000 thereafter through 2005.	540,000	-	40,000	500,000
Third Series A 7.6-8.5% bonds payable in annual installments of \$55,000 through 2001.	605,000	-	55,000	550,000
Fourth Series A 8.0% bonds payable in annual installments of \$10,000 through 1992.	30,000	-	10,000	20,000
Fifth Series A 6.4% serial bonds payable in annual installments of \$21,000 through 1991, \$20,000 through 1994, \$15,000 in 1995.	95,000	-	20,000	75,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

	Balance at June 30, 1990	Additions	Payments	Balance at June 30, 1991
First Series B 6.4% serial bonds payable in annual installments of \$110,000 through 2007.	1,870,000	-	110,000	1,760,000
Second Series B 8.5-9.1% bonds payable in annual installments of \$65,000 through 2001.	715,000	-	65,000	650,000
Third Series B 8.0% bonds payable in annual installments of \$155,000 through 1990 and \$150,000 in 1991 through 1992.	450,000	-	150,000	300,000
Fourth Series B 7.08% bonds payable in annual installments of \$199,000 through 1991, \$200,000 in 1991, \$140,000 in 1991, \$135,000 through 1995.	680,000	-	140,000	540,000
Fifth Series B 8.75-9% bonds payable in annual installments of \$70,000 through 2002, \$60,000 in 2003, \$50,000 in 2004 through 2005	-	1,000,000	-	1,000,000
First Series C 8.0% bonds payable in annual installments of \$155,000 through 1991 and \$150,000 in 1991 and 1992.	455,000	-	155,000	300,000
Second Series C 7.08% bonds payable in annual installments of \$65,000 through 1991, \$60,000 through 1995.	300,000	-	60,000	240,000
Third Series C 8.75-9% bonds payable in annual installments of \$205,000 through 2002, \$200,000 in 2004, \$195,000 in 2003 and 2005.	-	3,050,000	-	3,050,000
Act of 1972 8.0% bonds payable in annual installments of \$40,000 through 1992	120,000	-	40,000	80,000
Salem Acres Project bonds payable in annual installments of \$135,000 through 2002, \$130,000 in 2003, \$125,000 in 2004 through 2005.	-	2,000,000	-	2,000,000
Fifth series B 8.75-9% bonds payable in annual installments of \$15,000 through 2003, \$25,000 in 2004, \$30,000 in 2005.	-	250,000	-	250,000
Total bonds payable	\$ 6,740,000	6,300,000	915,000	12,125,000

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

The aggregate maturities of long-term debt are as follows:

<u>Year ending June 30:</u>	<u>Amount</u>
1992	\$ 1,330,000
1993	1,330,000
1994	980,000
1995	975,000
1996	765,000
Thereafter	<u>6,745,000</u>
	\$ <u>12,125,000</u>

The Bonds are general obligations of the South Essex Sewerage District and to the extent not paid from other sources, both principal and interest will be payable from sums which are annually apportioned to and assessed upon the member cities, towns and institutions as follows:

<u>Bond</u>	<u>Member Cities, Towns and Institutions</u>
Series A Bonds	The Cities of Peabody and Salem
Series B Bonds	The Cities of Peabody, Salem and Beverly, and the Towns of Danvers, Marblehead and Middleton, Essex County and the State (relative to certain institutions: Danvers State Hospital, Essex County Agricultural and Technical Institute, Essex County Sanatorium, and Essex County Industrial Farm)
Series C Bonds	The Towns of Danvers and Middleton, Essex County and the State (relative to certain institutions; Danvers State Hospital; Essex County Agricultural and Technical Institute; Essex County Sanatorium; and Essex County Industrial Farm)
Salem Acres Project Bonds	The Cities of Peabody and Salem

The District is authorized to incur debt by special acts of the state legislature and limits on the issuance of such debt are set forth in the particular acts. At June 30, 1991, the District was authorized to issue \$30,000,000 of original issue debt in connection with its construction projects.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(8) Pension Plan

(a) Plan Description

The District participates in a Retirement System administered by the City of Salem Retirement System ("System"), a cost-sharing, multiple-employer public employee retirement system. The System is a member of the Massachusetts Contributory System and is governed by Chapter 32 of the Massachusetts General Laws. Each participating employer's share of the total annual contribution is determined on the basis of active payroll. The District's payroll for employees covered by the System for the year ended June 30, 1991 was \$1,821,241. The total payroll for the District was \$1,849,451.

The System is a contributory defined benefit plan covering all employees deemed eligible. Certain District employees are covered by the City's noncontributory pension plan.

Membership in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members joining the System after January 1, 1979 were previously subject to a cap of \$30,000 on the level of compensation upon which their benefit was calculated. Effective June 15, 1990, the \$30,000 salary cap was removed.

Members of the System become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining twenty years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the District payroll on January 1, 1978, (3) voluntarily left District employment on or after that date, and (4) left accumulated annuity deductions in the Fund. Active members contribute either 5, 7 or 8% of their gross regular compensation depending on the date upon which their membership began. Effective June 15, 1990, any member of the System hired on or after January 1, 1979 will have an additional 2% of his regular pay over \$30,000 withheld. The District is required to contribute the remaining amounts necessary to pay benefits when due.

The System also provides death and disability benefits.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(b) Pension Benefit Obligation

The "pension benefit obligation" is a standardized disclosure to measure the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The pension benefit obligation at January 1, 1987 for the System as a whole, determined through an actuarial valuation performed as of that date, was \$55.7 million. The System's net assets available for benefits on that date (valued at market) were \$20.3 million, leaving an unfunded pension benefit obligation of \$35.4 million. The District's 1991 contribution to the System represented 10.07 percent of total contributions required of all participating employers.

(c) Contribution Requirements and Contribution Made

The Retirement System funding amounts are not actuarially determined. The District is required to contribute, each fiscal year, an amount approximating the pension benefits (less certain interest credits) expected to be paid during the year ("pay-as-you-go" method). This amount is determined in advance by the Public Employee Retirement Administration (PERA) and is based in part on the previous year's benefit payout. The Commonwealth of Massachusetts currently reimburses the System on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2-1/2.

The District's contribution to the System for 1991 of \$481,689 was made in accordance with the funding policy described above and was funded as follows: The District contributed \$359,339 (18.2% of current covered payroll); employees contributed \$122,350 (6.2% of current covered payroll).

(d) Trend Information

Trend information showing the System's progress in accumulating sufficient assets to pay benefits when due is required by GAAP to be included in the System's annual financial report. It is not known whether this report will contain the required historical trend information.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(9) Fund Deficits

The following funds had deficit equity balances as of June 30, 1991:

Capital projects:

Phase II	\$ (3,584,681)
Phase III	(1,333,172)
Salem Acres	(195,646)
Phase VI	<u>(1,444,228)</u>
	\$ <u>(6,557,727)</u>

The deficits in these funds will be eliminated through future bond issues and Federal and state grants.

(10) Reserve for Continuing Appropriations

Certain amounts appropriated and raised in fiscal years prior to 1991, but not expended in fiscal year 1991 are being carried forward to subsequent years as follows:

General Fund

HVAC modifications	\$ 154,000
Chemical addition	206,000
Capital equipment	86,000
Operations - spare parts	15,000
Maintenance - spare parts	17,162
Pump modifications for Marblehead	93,000
Replacement vehicle for district engineer	<u>9,381</u>
	\$ <u>580,343</u>

(11) Contingencies

The District is involved in an administrative action regarding the Salem Acres site in Salem, Massachusetts. The action contends that the District used the site to dispose of grit and grease over a period of twenty years and that hazardous substances exist. The District has volunteered to fund a study of the site to determine the extent of hazardous material and to determine the method of cleanup. The potential amount of clean-up costs and the District's liability, if any, are not determinable at this time.

(Continued)

SOUTH ESSEX SEWERAGE DISTRICT

Notes to General Purpose Financial Statements

(12) Unreserved Fund Equity

Unreserved fund equity in the General Fund is allocated as follows at June 30, 1991:

Essex County	\$ 23,422
State of Massachusetts	131,201
Middleton	53,186
Danvers	249,037
Beverly	366,626
Peabody	811,691
Salem	150,995
Marblehead	<u>575,110</u>
	\$ <u>2,361,268</u>

SOUTH ESSEX SEWERAGE DISTRICT
Combining Statement of Revenues, Expenditures and Changes in Fund Equity

Capital Projects Fund

Year ended June 30, 1991

	Phase I	Phase II	Phase III	Phase IV	Phase V Salem Acres	Phase VI	Total
Revenues:							
Intergovernmental		2,269,770	4,094,406	604,307	-	-	6,968,483
Interest	3,229	172,908	140,591	16,434	46,911	7,248	387,321
	<u>3,229</u>	<u>2,442,678</u>	<u>4,234,997</u>	<u>620,741</u>	<u>46,911</u>	<u>7,248</u>	<u>7,355,804</u>
Expenditures:							
Capital outlay	-	179,778	4,793,082	69,978	706,438	5,712,465	11,461,741
Excess (deficiency) of revenues over expenditures	3,229	2,262,900	(558,085)	550,763	(659,527)	(5,705,217)	(4,105,937)
Other financing sources - proceeds of bond issues	-	1,000,000	3,050,000	-	2,000,000	250,000	6,300,000
Excess (deficiency) of revenues over expenditures and other financing sources	3,229	3,262,900	2,491,915	550,763	1,340,473	(5,445,217)	2,194,063
Fund balance (deficit), June 30, 1990	45,655	(2,836,592)	(3,758,003)	(544,014)	(1,536,119)	-	(8,629,073)
Residual equity transferred to General Fund	<u>(48,884)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,884)</u>
Fund balance (deficit), June 30, 1991	<u>\$ -</u>	<u>426,308</u>	<u>(1,266,088)</u>	<u>6,749</u>	<u>(195,646)</u>	<u>(5,455,217)</u>	<u>(6,483,894)</u>

ACME
BOOKBINDING CO., INC.

JAN 30 1954

100 CAMBRIDGE STREET
CAMBRIDGE, MASS



